

Resona Asset Management

Stewardship Report

2020/2021





Corporations are playing a sustainable society.

other ESG factors are already presenting real risks and opportunities to companies, and have been incorporated into the investment process for some time now. However, we have come to the realization that taking another step forward to use the power of financing with the aim of achieving a better future has become one of the responsibilities of asset management companies.

Over the past year, in addition to securing the management resources necessary to move ahead with resolving these issues, we began a variety of activities centered on the Responsible Investment Division. In the 2019/2020 Stewardship Report, we discussed the kind of society we wish to achieve. For the year 2020/2021 we have gone a step further, selecting and prioritizing the important engagement issues that we believe Resona Asset Management should address in order to achieve such a society. This has clarified the level of consistency with past engagement topics. Moreover, with a focus on the engagement topics of climate change, reforestation, and job creation, we have utilized the cutting-edge framework by referring to several advanced studies to carry out impact assessments. It is through such a framework that we have been able to set out routes to integration, engagement and impact assessment.

Resona Asset Management has also worked proactively with Japanese and overseas institutional investors, centering collaborative engagement as an efficient and effective mechanism for implementing these activities, broadening their scope, and

First, as well as offering our condolences to those who have lost loved ones to the novel coronavirus disease (COVID-19), we convey our heartfelt sympathies to those who have contracted the disease, their families, and others worried by the current situation.

In addition, we wish to express our sincere gratitude to medical professionals and to others working diligently to maintain social and economic activity. While placing the highest priority on ensuring the health and safety of our employees, their families, our clients, and those employed at investee companies, we will do our utmost efforts to fulfill the duties of the asset management business.

Our 2019/2020 Stewardship Report contains the following statement: “The responsibility of the investment manager is no longer limited to investment results, but is extended towards achieving sustainable society.” Climate change and

Foster a corporate culture

Resona Asset Management
The officers and employees of Resona Asset Management conduct business genuinely for the sake of our clients based on high standards of professionalism.



an increasingly influential role in achieving

achieving greater selectivity by participating in a diverse range of platforms. It is through such initiatives that we aim to maintain our commitment to using our own power to ensure a better future.

One important measure we will implement going forward is a further strengthening of impact management. We will pursue impacts of greater scope and continuity, and seek more compelling impact explanations, through such initiatives as expanding impact themes, giving closer consideration to negative impacts, and broadening the range of eligible instruments. In addition to further intensifying both unilateral and collaborative engagement activity, we will take a more proactive approach to using the power of financing to fulfill our commitment to ensuring a better future, such as by expanding stakeholder dialogue and broadening our involvement in public engagement (participating in policy planning as external committee members, responding to requests for public comments).

As shown by the recent commitment, made by Prime Minister Yoshihide Suga in his keynote speech to the Diet, to cutting Japan's greenhouse gas emissions to effectively zero by 2050, the direction to take in dealing with environmental problems is being determined at a global level, and is accelerating the switch to new industry structures. Moreover, as if revealed by the COVID-19 pandemic, the challenges faced by society have also become increasingly clear. We are not so arrogant as to believe that ESG issues, including these, can be resolved solely through the power of financing.

However, taking into account the function of supply chains in a globalized world economy, corporations are playing an increasingly influential role in achieving a sustainable society.

In such an environment, as members of global society we in the asset management industry must give behind-the-scenes support to sustainable corporate growth, by committing solidly to engagement and other activities, thus fulfilling our roles and responsibilities within the context of this larger trend.

We believe that this contributes not only to achieving a sustainable global environment and society, but also to raising the corporate value of investee companies over the long term, to the development of sound capital markets, and also to long-term improvements in investment performance.

As a responsible long-term investor, we, Resona Asset Management, will continue to embrace increasing social responsibility. While we continue to conduct effective stewardship activities, we will contribute to achieving a sustainable society, both by facilitating long-term growth in the corporate value of investee companies and by helping find solutions to social challenges.

Akihiko Nishioka

Representative Director and President
Resona Asset Management Co., Ltd.

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Asset Management Company of the Resona Group

- Resona Asset Management was established in August 2015 as the asset management company of the Resona Group. By consolidating the trust asset management functions of the Resona Bank in January 2020, it became one of Japan's leading asset managers both by asset size and asset management framework. (As of the end of September 2020, assets under management were approximately **¥28 trillion**, and there were **around 100** asset management professionals)
- Resona has a track record in asset management of over **58 years**.* Over that time it has accumulated the know-how to provide stable and sustainable returns over the long term, primarily through corporate and public pension fund management.
- The Resona Group is one of the leading commercial banking groups in Japan, and aims to be No. 1 in retail. By combining our networks both inside and outside the Group with management capabilities developed over many decades in pension fund management, we will provide instruments and services for which clients have a genuine need.

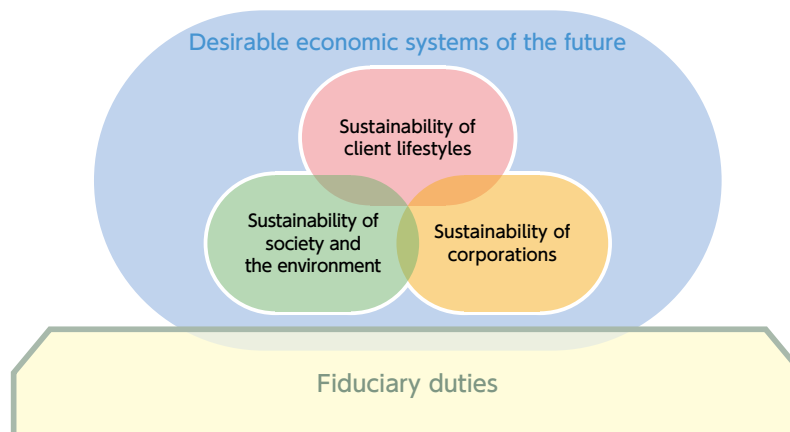
*Calculation includes Resona Bank period

Our Purpose

We believe that both investee companies with sustainable businesses, and a sustainable society and environment that constitutes the base for corporate activities, together help protect the assets entrusted to us by clients, and underpin the sustainability of client lifestyles.

By practicing responsible investment activities and seeking to make the desirable economic systems of the future a reality, we discharge our fiduciary responsibilities as an asset manager that can provide abundance and happiness to future generations as well as our own.

An asset manager that can provide abundance and happiness to future generations as well as our own





Initiatives to further enhance our asset management

Our vision

Clarification of our vision and strengths as an asset manager, and initiatives to achieve our goals

Current

- Clarification that Resona Asset Management (1) contributes to the asset-formation support business as the asset management function of the Group, and (2) aims to develop the business by leveraging its asset management capabilities



Future

- In order to achieve our vision, we are committed to a policy of continuously implementing measures such as enhancing our human resources assessment system, strengthening fund governance, and conducting research and development aimed at reinforcing our asset management capabilities

Governance

Demonstrating functions that provide checks on management and fund management from the perspective of client interests

Current

- When asset management functions were consolidated in January 2020, Resona Asset Management moved to a Company with an Audit and Supervisory Committee structure as well as two independent outside directors for the purpose of enhancing governance.
- An Investment Committee and Investment Assessment Committee were set up at the time the company was established



Future

- Conduct review of internal discussion forums with the aim of further intensifying and developing previous initiatives for fund governance

Understanding and cooperation of the parent company in relation to the asset management business

Current

- Adopted a professional asset manager personnel system in 2008, and established an independent structure for personnel assessment and compensation
- Clarified roles and business objectives of Resona Asset Management within the financial group in September 2019, and worked to achieve shared awareness with the parent company



Future

- Continue dialogue with the parent company with the aim of achieving our vision

Management setup

Put in place a management setup that places the highest priority on client interests and that focuses on long-term asset management

Current

- Our top managers are all individuals with business experience in long-term asset management
- Managers of our investment-related departments are appointed from those with many years of experience in asset management



Future

- Revise management appointment process and compensation structures, etc. in order to create a mechanism for the promotion of promising personnel

Strengths of Resona Asset Management

Trust bank model

Resona Asset Management’s roots lie in the trust bank industry, and it is oriented towards the so-called “trust bank model.” The trust bank model is not dependent on short-term profits, is based on the concept of fiduciary duties, and involves the duty of a strong and long-term commitment to clients. As a result it aims to continuously generate profits over the long term.

1 Responsible investment

We have adopted the concept of universal ownership and promote responsible investment activities. We also practice an engagement strategy geared to finding solutions to ESG issues across society by identifying responsibilities for social sustainability.

Total number of dialogues and engagements conducted (Total of active and passive)

1,874

Number of engagement agendas

17

2 Network

We leverage the network we developed as a pioneer in responsible investment to gather information by interacting proactively with holders of advanced knowledge. We also implement collaborative engagements through our connections with various engagement platforms.

Number of times invited to serve as external committee member, etc.

15

Number of times participated in collaborative engagement platforms

11

3 History

We began managing assets in 1962, and focused mainly on corporate pension fund management. In 2008 we became a signatory to the PRI, and have been participants in the PRI Japan network since it was first established. We have also built up a track record in responsible investment through our work as chair of the PRI Japan WG and other roles.

History of asset management

58 years

Year in which we became a signatory to PRI

2008

4 Asset management framework/ Human resource development

We have built an asset management framework underpinned by approximately 100 asset management professionals, primarily analysts and fund managers. While pursuing specializations matched to asset management style, we seek to share know-how related to responsible investment.

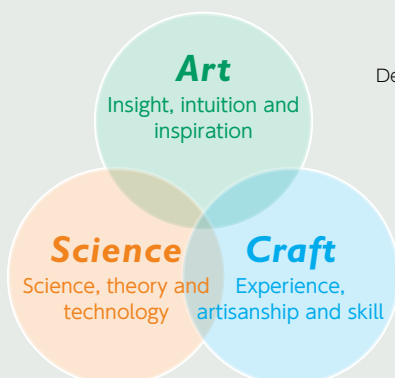
Asset management professional

Approx. 100

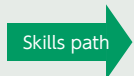
Number of meetings held to share information related to responsible investment

49

Professionals must embody attributes in three realms



Degree of professionalism



Qualifying as a professional

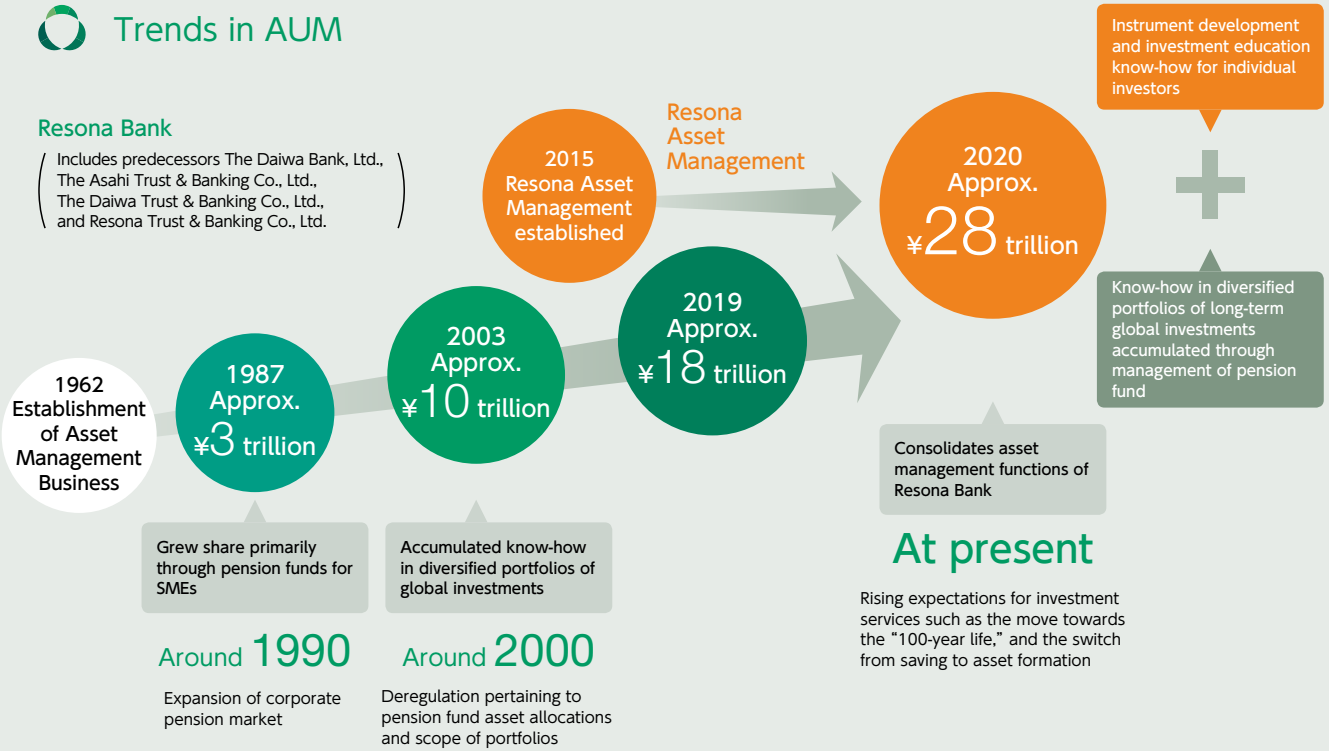
- A professional possesses knowledge mutually forged through hard work
- A professional is valued within and outside the organization
- A professional faithfully performs his or her job and takes initiative in making decisions



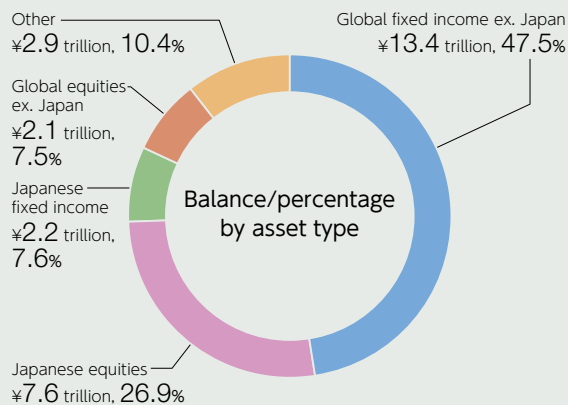
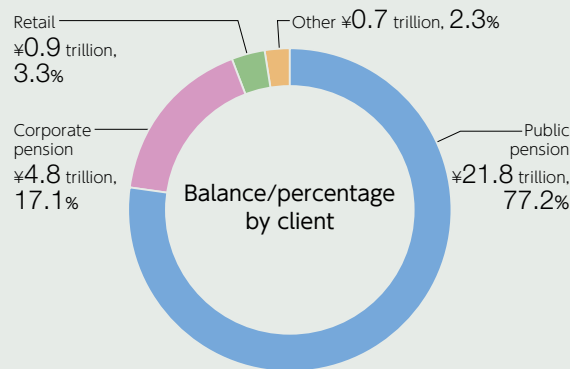
Trends in AUM

Resona Bank

(Includes predecessors The Daiwa Bank, Ltd., The Asahi Trust & Banking Co., Ltd., The Daiwa Trust & Banking Co., Ltd., and Resona Trust & Banking Co., Ltd.)

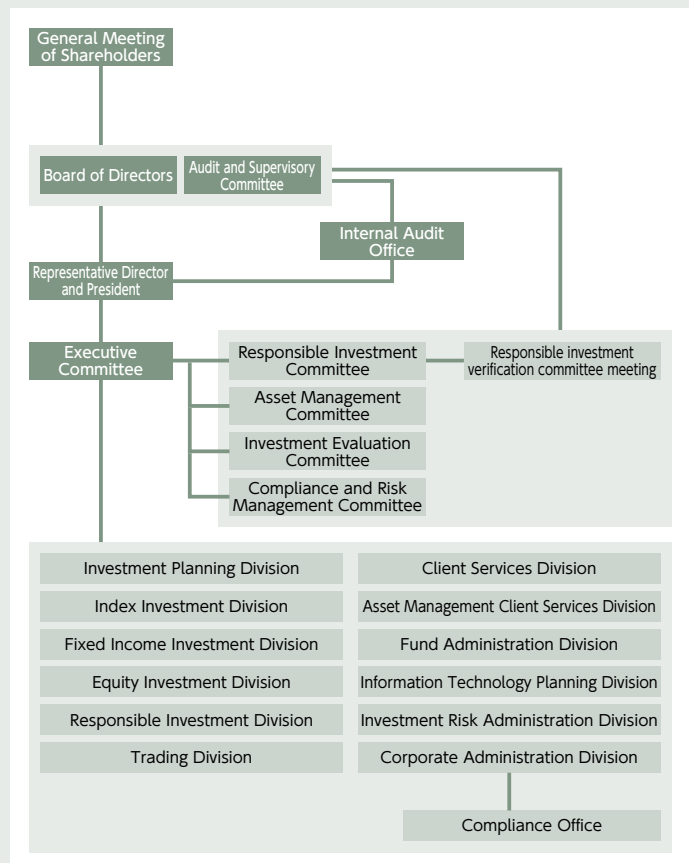


Composition of AUM



(As of September 30, 2020)

Organizational framework



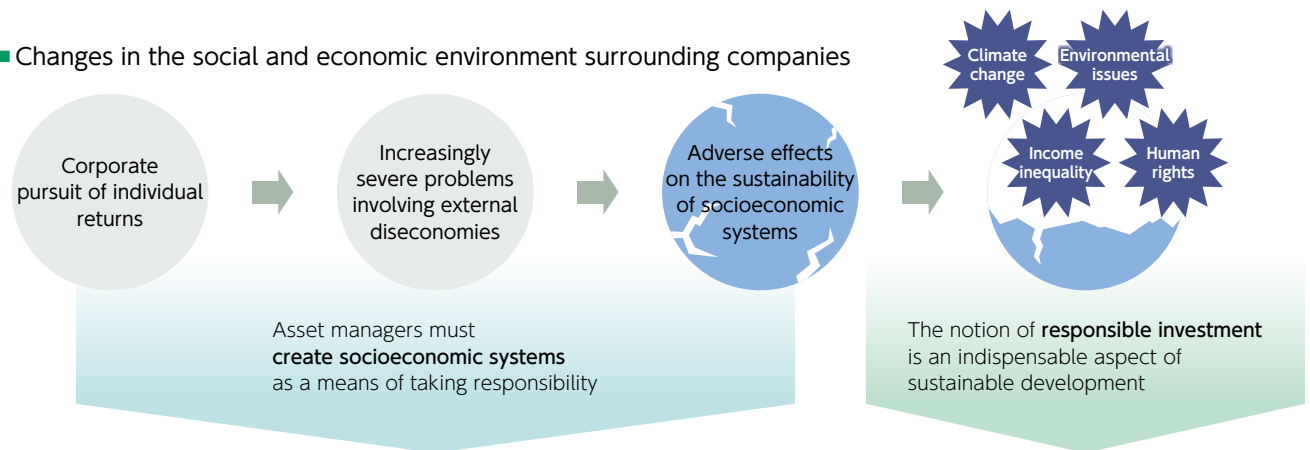
Resona's Responsible Investment



Changes in the social and economic environment, and roles of asset managers (Resona)

We have been promoting responsible investment activities upon having adopted the concept of universal ownership since 2013. With a focus on external diseconomies, we urge companies to find solutions to ESG issues while concurrently supporting them in their efforts to sustainably heighten corporate value.

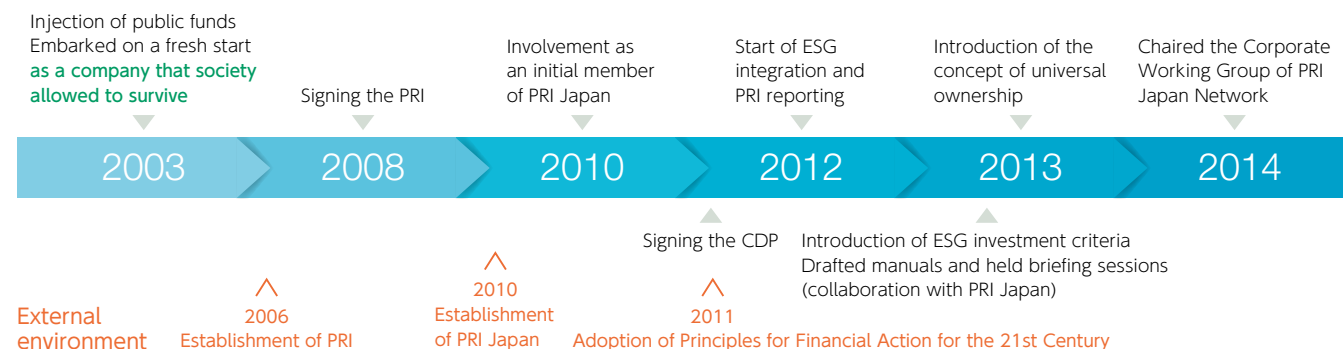
Changes in the social and economic environment surrounding companies



The role of Resona as an asset manager

- (i) Practice an engagement strategy geared to finding solutions to ESG issues across society by identifying responsibilities for social sustainability.
- (ii) Fulfill its role in acting as a responsible investor with respect to providing support of universal ownership as a long-term investor
- Formulate basic policy on responsible investment

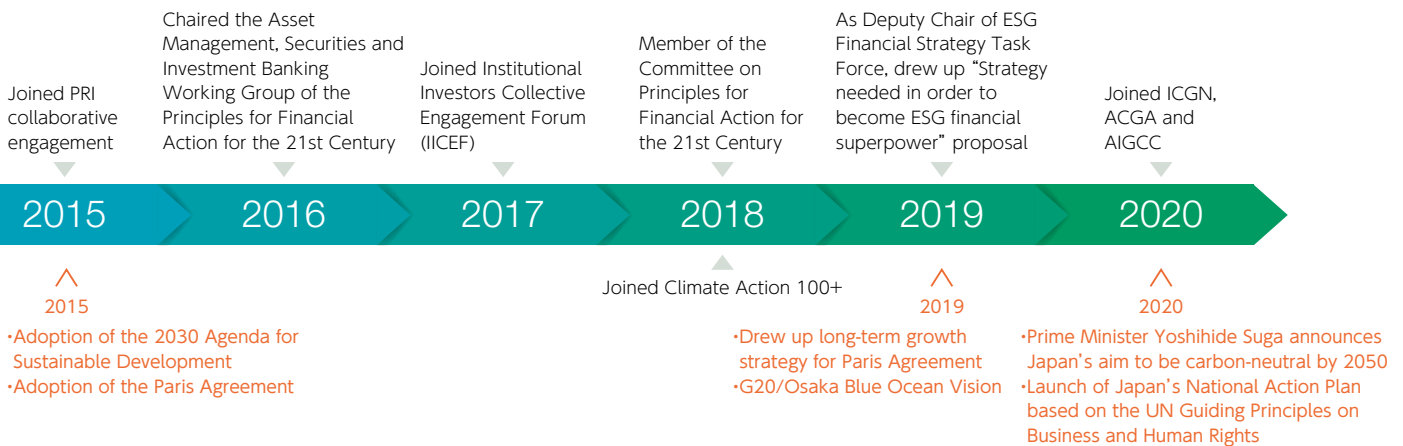
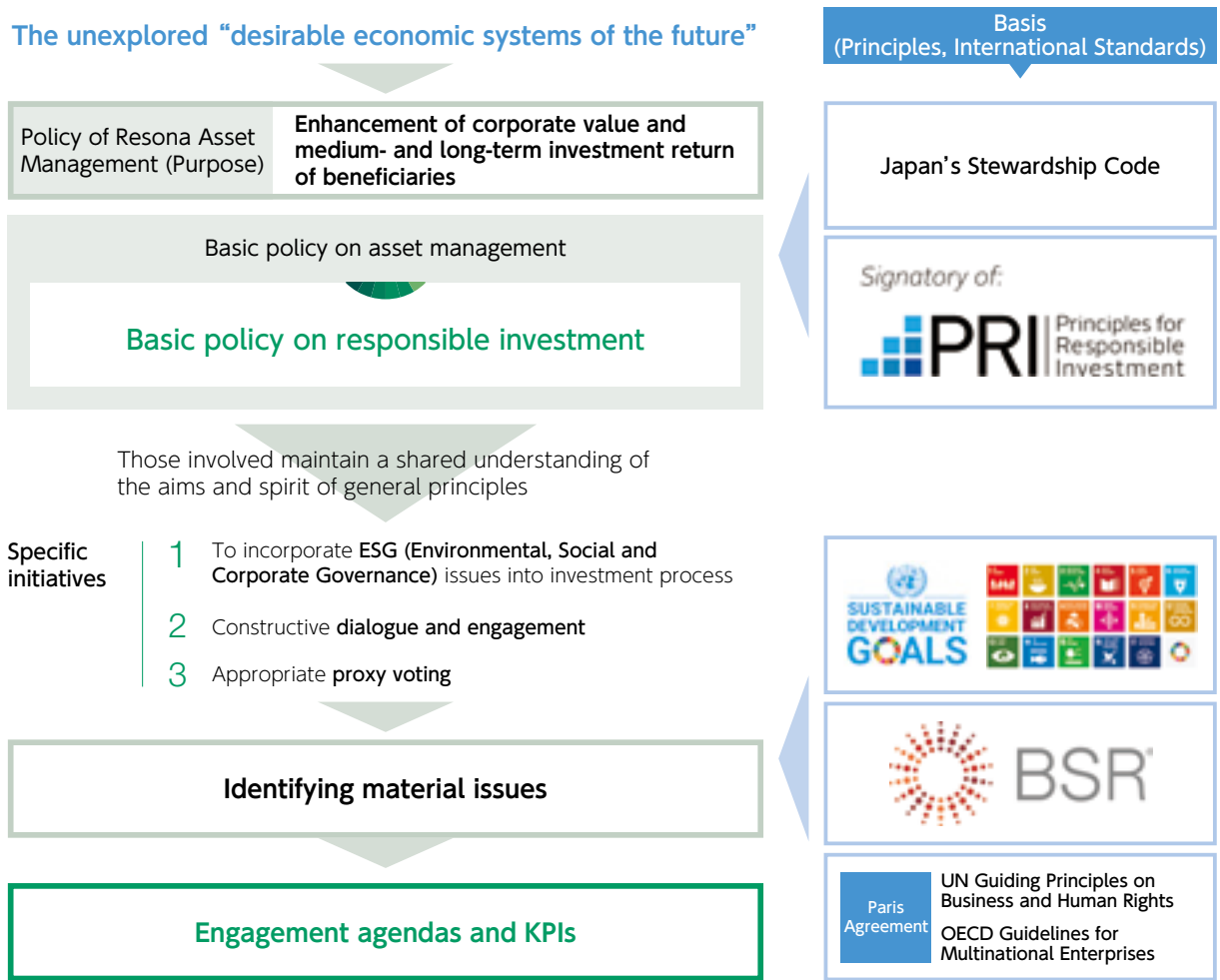
Resona's track record of responsible investment



Basic policy on responsible investment

Our management of trust assets and other investments entails promoting increased value and sustainable growth of corporations from a medium- to long-term perspective, which involves sufficiently assessing and analyzing financial information of investee companies, as well as non-financial information encompassing means of addressing their environmental, social and corporate governance (ESG) challenges. We endeavor to increase the value of trust assets and other investments through such efforts.

The unexplored “desirable economic systems of the future”



What do stewardship activities mean to Resona?

We aim to achieve sustainable society through actively engaging in both enhancing medium- to long-term corporate value and finding solutions to social challenges.

Framework of responsible investment and stewardship activities

The Responsible Investment Committee spearheads efforts to engage in activities employing the collective knowledge of Asset Management Unit of Resona Asset Management, with the aims of appropriately fulfilling our stewardship responsibilities as a trustee, engaging in initiatives that help to bring about growth of investee companies, and helping to achieve a sustainable society.



Responsible Investment Committee

The Responsible Investment Committee conducts basic policy on responsible investment. As such, it plays an important role in acting as a control tower for verifying the reasonableness of initiatives with respect to the Principles for Responsible Institutional Investors and the Principles for Responsible Investment (PRI), and continually devising solutions and improvements.

The committee consists of President, executive officers responsible for Asset Management Unit, general managers of related divisions and from the perspective of internal controls, executive officers responsible for compliance. The committee takes action in a manner that entails enlisting the collective experience and knowledge of such individuals in order to carry out initiatives that contribute positively to the sustainable growth of investee companies. Moreover, in May 2017 Professor Takeshi Mizuguchi, Vice President at Takasaki City University of Economics was welcomed onto the committee as an external expert and leading authority on responsible investment. He has been furnishing opinions and advice from an outsider's perspective in relation to the activities of Resona Asset Management, based on his extensive knowledge.

The Responsible Investment Committee reports on three specific efforts included in basic policy on responsible investment, and also takes on various types of review and discussion particularly by deliberating on changes and proposals on proxy voting guidelines.

■ Specific initiatives with respect to basic policy on responsible investment

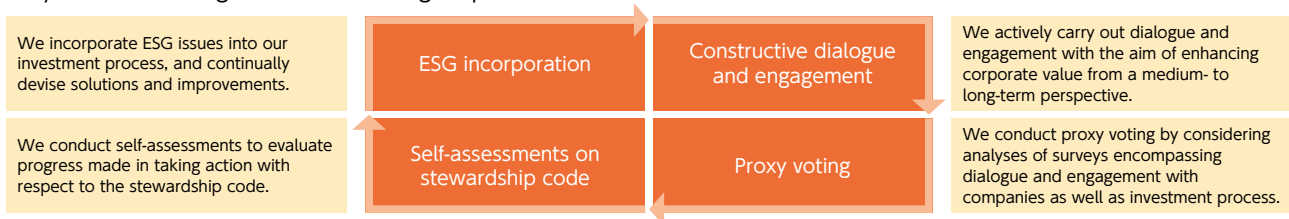
- To incorporate ESG issues into investment process
- Constructive dialogue and engagement
- Resona's proxy voting

■ Primary discussions and reporting of the Responsible Investment Committee

- Discusses changes on proxy voting guidelines
- Discusses self-assessment on stewardship activities
- Deliberates on proposals for which a definitive decision is not possible
- Reports on stewardship activities
- Results and review of proxy voting for Japanese and global equities
- Reports on 2020 PRI Reporting
- Discusses plans for dialogue and engagement, and reports on the results

We aspire to fulfill our stewardship responsibilities to a greater extent by improving our stewardship activities drawing on efforts of the Responsible Investment Committee in terms of discussions, opinions on improvements and self-assessment regarding the status of action being taken with respect to the stewardship code.

■ Cycle of activities geared to enhancing corporate value



Responsible investment meeting

- The responsible investment meetings are held on a weekly basis to regularly share information and exchange opinions on matters related to responsible investment, news flow as it pertains to ESG issues, and progress made in dialogue with companies by respective divisions.
- Through its meetings and other forums, the Responsible Investment Division shares information and exchanges opinions with each relevant division, and accordingly submits action policies and other documents to the Responsible Investment Committee.

■ Topics covered at responsible investment meetings (September to November 2020)

- Biodiversity Pledge
- Climate Action 100+ Net-Zero Company Benchmark
- ISS Global Policy Survey
- Follow-up meetings for Japan's Stewardship Code and Corporate Governance Code
- Press release regarding Asia Investor Group on Climate Change (AIGCC) keynote speech by Japanese government

Responsible investment verification committee meeting

Established in November 2017, the responsible investment verification committee meeting was set up to enhance the governance framework as it relates to matters such as management on conflict of interests in the realm of managing trust assets. To such ends, the meeting acts as a forum for gaining an external third-party perspective in verifying that stewardship activities encompassing the proxy voting are conducted appropriately.

Operations

Schedule: Held at least twice a year

Secretariat: Business Administration Group, Investment Risk Administration Division

Members

| | |
|-------------------|--|
| Chiharu Baba | Outside Director of Resona Holdings, Inc. (Chairman: Former Deputy President of Mizuho Trust & Banking Co., Ltd.) |
| Ryo Tsuchida | Outside Director of Resona Asset Management Co., Ltd. (Professor, Sophia Law School) |
| Shoichi Tsumuraya | External expert (Associate Professor, Graduate School of Business Administration, Hitotsubashi University) |

Major items reviewed

- Appropriateness of guidelines on proxy voting (Japanese equities, global equities)
- Appropriateness of proxy voting activities (Japanese equities, global equities)
- Appropriateness of other stewardship activities
(Matters deemed necessary such as review from the perspective of management on conflict of interests regarding stewardship activities)

Reviewed content

- The sixth committee meeting (held in February 2020) Changes to proxy voting guidelines for Japanese and global equities
 - The seventh committee meeting (held in August 2020) Proxy voting results for shareholders meetings during July 2019 to June 2020
- The suitability of the topics subject to review was verified at the responsible investment verification committee meeting sessions listed above.

Collaboration aimed at the common objective of enhancing corporate value, and verification of responsible investments

Asset owners, institutional investors including us, and the management of investee companies all have the same objective, namely enhancing corporate value over the medium to long term. However, at the same time, it is well known that the agency problem exists between shareholders and company management, and between asset owners and institutional investors, and it is also widely understood that precisely because of the existence of the agency problem, company management is considered to have a fiduciary duty to shareholders, and institutional investors have a fiduciary duty to asset owners. While in responsible investment the objectives are shared there is still a structural conflict of interests, and we see our role as verifying whether or not Resona, as an institutional investor, is discharging its responsibilities to the asset owners appropriately.

Over the past few years, and even after the launch of the responsible investment verification committee meeting, the environment for responsible investment has changed dramatically. Nowadays, the guidelines of proxy voting have been expressed more clearly, and results have been disclosed at an individual company level. In the midst of these changes, we are being required not only to perform simple verification of our voting results and their guidelines, but also to hold forward-looking discussions on what should be done to achieve the shared goal of raising future corporate value.

At every meeting of the responsible investment verification committee, in addition to verifying proxy voting guidelines and the individual voting results, we put time aside to discuss the significance of shareholders meetings, governance mechanisms, the ideal approach to executive compensation and other fundamental themes of corporate governance, which results in lively exchanges of views between the committee members and the Resona Asset Management team. We do not always reach conclusions easily, and neither do these discussions have an immediate impact on proxy voting policies, but they do form part of the foundation for Resona to achieve its goal of "GOOD Governance."



Ryo Tsuchida

Member of responsible investment verification committee meeting

Outside Director of Resona Asset Management Co., Ltd.

Management on conflict of interests

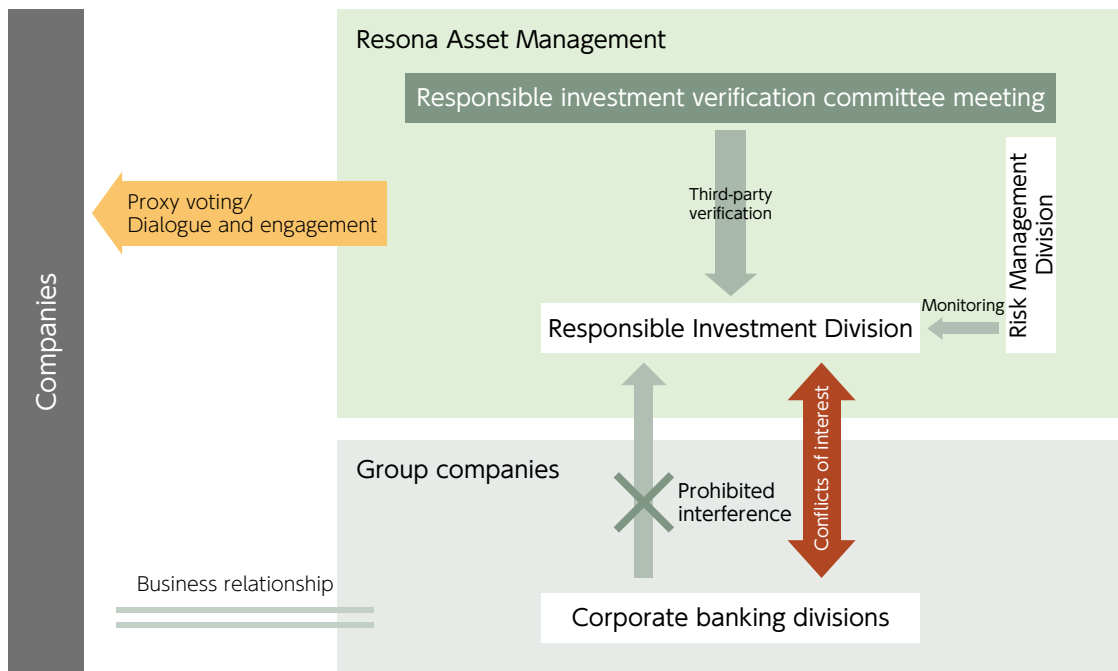
In carrying out responsible investment, Resona Asset Management should be mindful of certain types of transactions that are prone to conflict of interest. Such transactions conceivably include situations that involve proxy voting with respect to shares owned through trust assets and other investments, and situations that involve dialogue and engagement with investee companies.

When carrying out proxy voting on investee companies, with which the corporate banking divisions of the group companies maintain business relationships, decisions and actions taken to discharge fiduciary duties could be substantially affected under a scenario where the corporate banking divisions of group companies interfere with Resona Asset Management's decision to vote for or against a proposal, or in terms of voting results.

We appropriately endeavor to avoid such situations by taking the actions as follows:

- Interference by the corporate banking divisions of group companies is prohibited and personnel reassignments are subject to restrictions
- Proxy voting activity is monitored by the Risk Management Division
- Compliance Division and Risk Management Division act as member of the Responsible Investment Committee
- Appropriateness of proxy voting activity is verified by the responsible investment verification committee meeting, which is composed of external experts
- Risk Management Division checks that all proxy voting for the parent company and other such entities and for other cases are carried out appropriately
 - (i) Those carrying out proxy voting for the parent company and other such entities (Resona Holdings and the Kansai Mirai Financial Group) do so upon seeking advice from an external, third-party proxy advisor pursuant to proxy voting guidelines of Resona Asset Management
 - (ii) All proxy voting cases other than (i)

■ Management framework

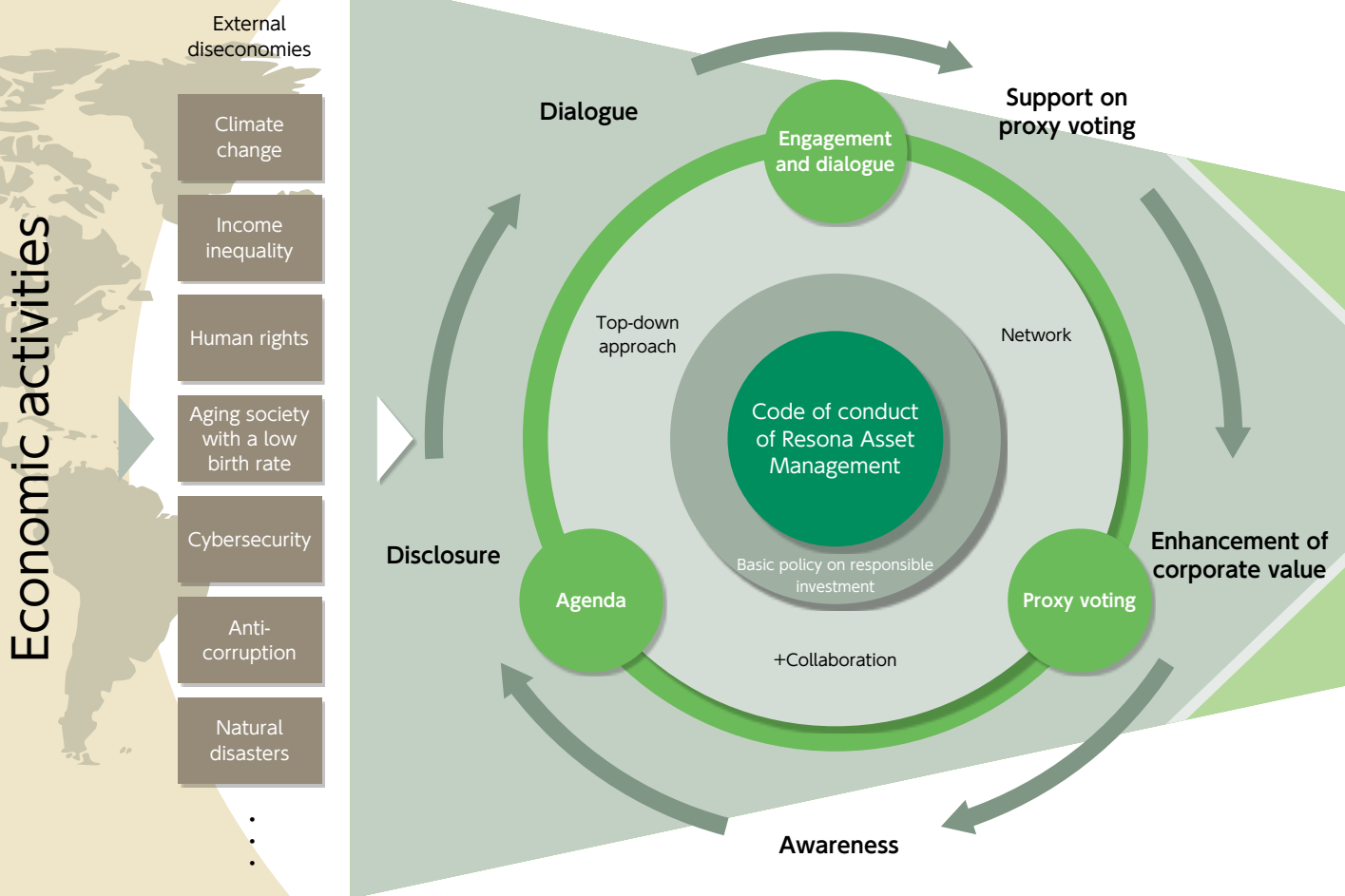


Chapter 2

Responsible Investment and Stewardship Activities at Resona Asset Management



Future Taker



Efforts for enhancing corporate value and medium- and long-term investment return of beneficiaries

Future Taker : Practice an engagement strategy geared to finding solutions to ESG issues across society by identifying responsibilities for social sustainability.

Future Maker : Fulfill its role in acting as a responsible investor with respect to providing support of universal ownership as a long-term investor

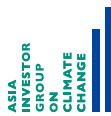
Future Maker



Global Compact
Network Japan

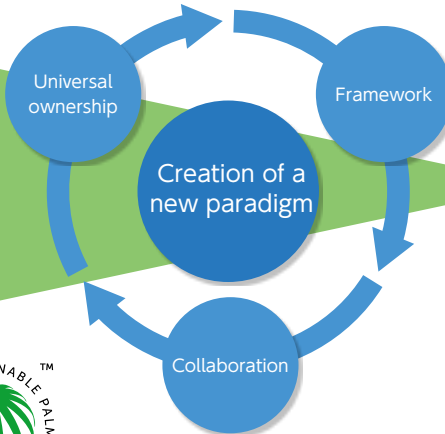


Signatory of:



INTEGRATED REPORTING <IR>

Enhancement of
medium- and
long-term return



New form of
capital markets

Unexplored
economic system

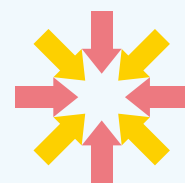
Inclusive socioeconomy



Sustainable environment



Corporate culture, purpose





Resona Asset Management's goal

New forms of capital markets and unexplored economic systems

Resona Asset Management's contribution to the creation of **new forms of capital market** is based on the following approach.

Basic approach

As participants in capital markets, we will contribute as investors to the development of sound capital markets. In addition, we will discharge our broad fiduciary duties, by actively supporting the financial and capital markets in the desirable economic systems of the future.

Given the long-term global issues posed by external diseconomies, we have positioned the unexplored **"desirable economic systems of the future"** as the realization of (1) Inclusive socioeconomy, (2) Sustainable environment, and (3) Corporate culture and purpose.

Long-term global issues



- Global population growth
- Further poverty, food shortages, environmental degradation, water shortages, decreased public security, and migrants and refugees in developing countries
- Loss of biodiversity, and severity of impacts from climate change
- Greater global health risks
- Shortcomings of social safety nets, wealth and income inequality
- Rapid digitalization, utilization of AI, and automation
- Work style reform, and increasing non-regular employment
- Growing complexity of supply chains, and rising number of migrant workers

The unexplored "desirable economic systems"

1 Inclusive socioeconomy

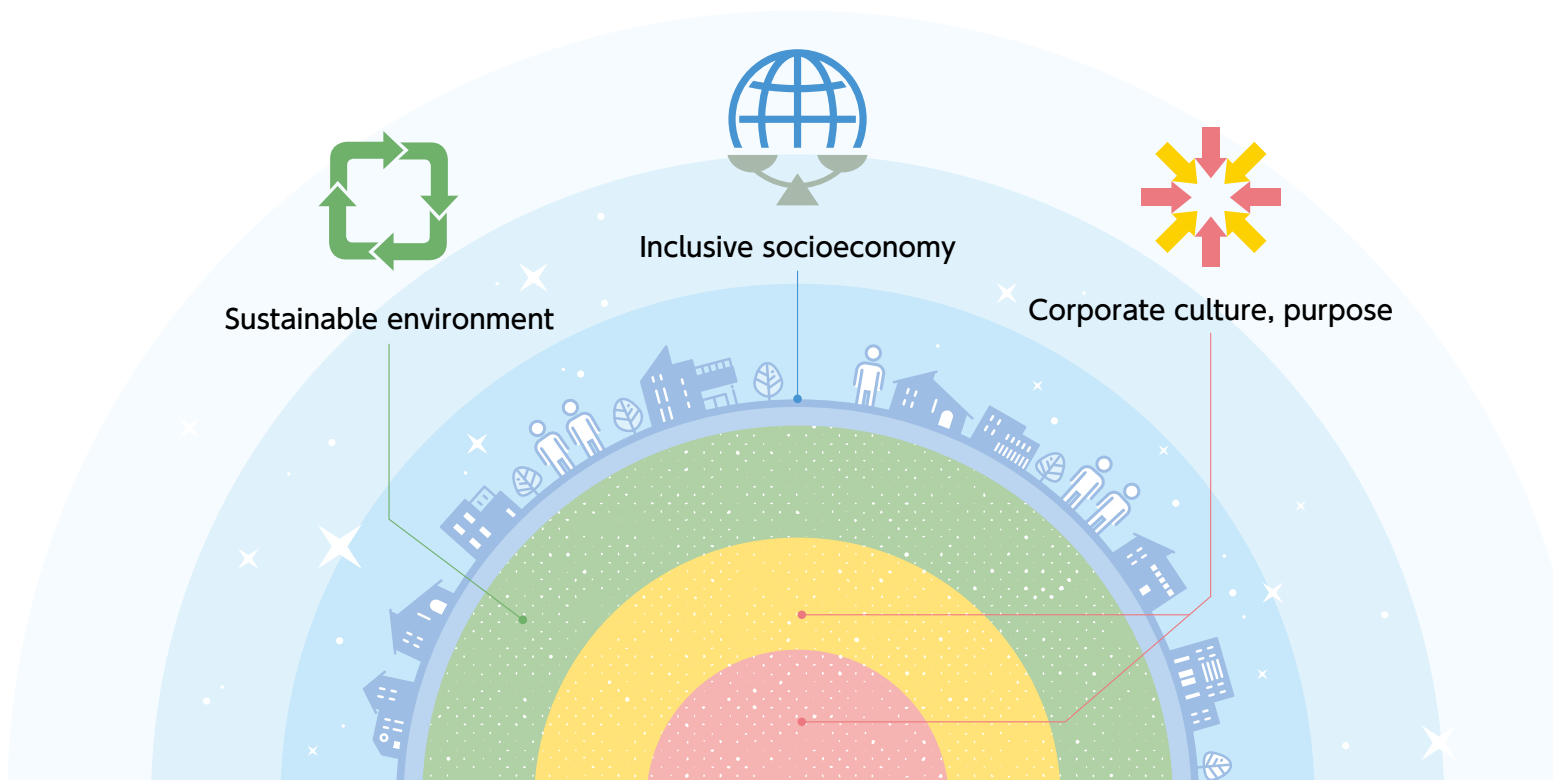
1 Social and economic systems that can realize a sustainable society through fair and just transition

2 Sustainable environment

2 Transition from the linear production, consumption, disposal model to a "Circular model" with long-term perspective

3 Corporate culture, purpose

3 Understand the corporate culture and philosophy of the investee company Re-recognize the goals and roles of the company, and board's functional role



By linking the externalities such as sustainable environment and inclusive socioeconomy with the internality such as corporate culture and purpose, we believe that we can realize the desirable economic systems of the future.

of the future”

Engagement agenda

- Address child labor and forced labor issues in supply chain management, improve working conditions P46-49
 - Healthy and safe lifestyle (Sustainable food supply chain) P48
 - Diversity and inclusion P50
 - Workplace health and safety, employee wellbeing P52
-
- Biodiversity and forest conservation P44
 - Effective utilization of resources, and resource circulation (marine plastic waste) P47
 - Climate change P51
-
- Corporate ethics/Fair business conduct and anti-corruption P50-53

1 Re-consideration of prioritizing our materiality

In 2020 we have re-considered our “Materiality” towards realization of the “desirable economic systems of the future” (please see page 12 to page 15 for details).

■ Selection of our materiality issues

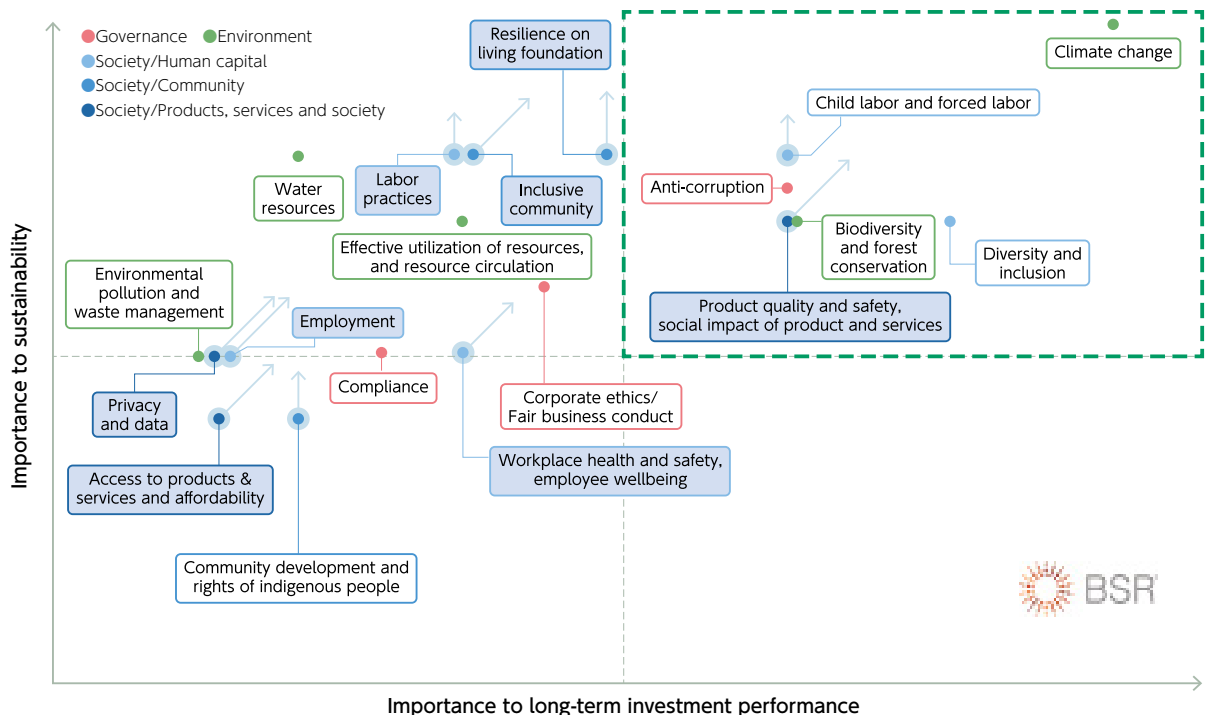
In addition to the annual ESG issues selection process, we have prioritized our ESG issues by mapping them into 2 dimensions, which are “Importance to Long-term Investment performance,” and “Importance to Sustainability.”

■ Selection process of our materiality issues

| | | Output |
|-------------------------------|--|--|
| Listing up materiality issues | Selection of ESG issues | List of ESG issues (Approx. 30) |
| Assessment framework | Established assessment criteria & method on: • The “Importance to long-term investment performance,” X axis, and • the “Importance to sustainability,” Y axis. | Assessment criteria & method |
| Materiality assessment | Prioritize ESG issues. | Materiality assessment (Results of materiality analysis) |

■ Materiality Mapping and long-term changes in importance

The below map shows the result of prioritized Material Issues. We have also taken the impact on Covid-19 Pandemic into considerations. Issues with arrows are ESG issues, of whose importance (materiality) has risen from the Covid-19 Pandemic. This “Materiality Mapping” was conducted by the advice of BSR.



* This “Materiality Mapping” was conducted by the advice of BSR

■ Definition of material issues selected

| | | |
|---|---|--|
| E | Climate change | <ul style="list-style-type: none"> · GHG emission from corporate activities and value chain · Use of renewable and non-renewable energy · Adaptation, physical risk assessment and risk management |
| | Biodiversity and forest conservation | <ul style="list-style-type: none"> · Impact on deforestation, diversity of animal/plant species & genetic, natural ecosystem through by corporate activities (such as harvesting natural resources, land development & land use). Impact that can adversely affect the integrity of a geographic area or region, either directly or indirectly, by substantially changing its ecological features, structures, and functions across its whole area, and over the long term, so that habitat, its population levels, and the particular species that make the habitat important cannot be sustained. |
| S | Child labor and forced labor | <ul style="list-style-type: none"> · All work and service that is exacted from any person under the menace of any penalty and for which the said person has not offered herself or himself voluntarily. Involvement on child labor and forced labor through corporate activities and throughout the supply chain. · It is applicable to both permanent and temporary employment contract. |
| | Product quality and safety, social impact of product and services | <ul style="list-style-type: none"> · Ensuring product quality and safety. · Fair and responsible marketing communications to enable consumers to make decision with sufficient information. |
| | Diversity and inclusion | <ul style="list-style-type: none"> · Diversity and opportunity in all levels of the company, including board of directors. · Discrimination and harassment. |
| G | Anti-corruption | <ul style="list-style-type: none"> · Bribery, facilitation payments, fraud, extortion, collusion, money laundering. · Includes involvement at corporate activities and value chain. |

■ Covid-19 effect on ESG issues

| | | |
|--------------------------------|---|--|
| Human capital | Child labor and forced labor | <ul style="list-style-type: none"> · COVID 19 is impacting more on the economically vulnerable workers. A number of workers who are more vulnerable to potential human rights abuses are increasing. |
| | Workplace health and safety, employee wellbeing | <ul style="list-style-type: none"> · The concept of occupational safety and hygiene which used to be emphasized mainly in the manufacturing industry became more important for the non-manufacturing workers, especially those of essential workers (medical, retail, life-related services, etc.) regarding infection prevention. |
| | Employment | <ul style="list-style-type: none"> · The economic downturn has put further pressure to employment, and the unemployment rate is worsening. · In particular, the negative impact is higher for non-permanent workers, Gig workers, and migrant workers. Further to that the situation is severe, as remedies may not be fully applied. |
| | Labor practices | <ul style="list-style-type: none"> · As a side effect, the safety nets issue for non-regular workers is apparent. Social expectation for the review the working conditions will likely arise. |
| Community | Community development and rights of indigenous people | <ul style="list-style-type: none"> · COVID 19 is impacting more severely to countries and regions with vulnerable health care system. Risk on negative chain reaction such as poverty, food shortages, and security deterioration is increasing. · Expectation towards improvement of resilience of corporate value chains and corporate contribution to the local community is expanding. |
| | Inclusive community | <ul style="list-style-type: none"> · The economic downturn is forcing a greater negative impact on SMEs and micro-enterprise (such as the tourism, restaurant, and service industries), and there are concerns towards further economic disparity. |
| | Resilience on living foundation | <ul style="list-style-type: none"> · Unprecedented risks have shown to threaten the living foundation. Necessity for higher resilience to natural disasters and various risks in the future, maintaining socio-economic/living foundation has been strongly recognized. |
| Products, services and society | Access to products & services and affordability | <ul style="list-style-type: none"> · There is an urgent need for a stable and fair supply of daily necessities such as medical care and food. With the progress of digitalization on education and various social services, improvement on access to products/services for vulnerable groups of citizens is becoming more important. |
| | Privacy and data | <ul style="list-style-type: none"> · Due to the rapid progress of digitalization and the strengthened monitoring of personal activities & information by the governments, the risk on privacy invasion is increasing. |
| | Product quality and safety, social impact of product and services | <ul style="list-style-type: none"> · Solution for social issues and society contribution by making the best use of core competencies (such as products/services, technologies, business models) are becoming more important, as the importance of corporate value is more recognized. |

* Shaded ESG issues are those where there have been significant changes in importance.

2 Addressing climate change (response to TCFD recommendations)

In November 2020 we have donated supports to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In this section, we will disclose our climate-related governance structure, strategy, metrics & targets, and risk management. We will strengthen our recommended framework and improve our climate-related disclosures going forward.

Governance

Governance structure

- The TCFD information is periodically reported at the Board of Directors meeting, which includes two independent directors.
- Climate risk, integration, engagement activities, and engagement plans are reported and discussed at the Responsible Investment Committee.

Operational flow

- The Responsible Investment Division conducts climate risk analysis.
- The Climate risk & opportunity analysis and the strategy is shared and discussed within the investment function.

Governance structure

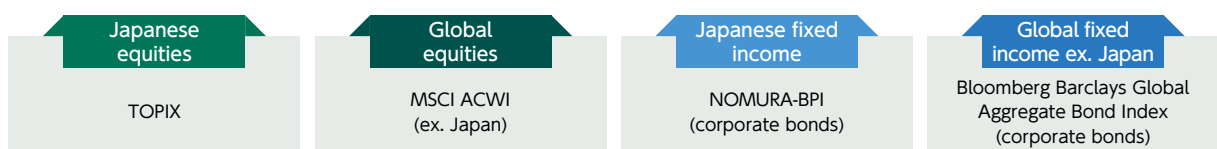


Carbon metrics

- We are calculating four carbon metrics of our portfolio to analyze climate-related risk and opportunities.
- On page 19, we have disclosed the climate metrics of our equity and corporate bonds in our Japanese and global portfolios.
- We are calculating benchmark values in alignment with the same monetary sums as those of our investment portfolios.

We are using GHG emission data and tools from Institutional Shareholder Service (ISS).

Benchmarks (BM)



■ Metrics

| Assets | GHG emissions Scopes 1&2 (tCO ₂ e) | GHG emissions Including scope 3 (tCO ₂ e) | Carbon footprint ^(Note 1) (tCO ₂ e/M USD) | Carbon intensity ^(Note 2) (tCO ₂ e/M USD) | Weighted average carbon intensity ^(Note 3) (tCO ₂ e/M USD) |
|-----------------------------------|--|---|--|--|--|
| Japanese equities | 16,803,729 | 54,548,921 | 240.02 | 177.78 | 87.97 |
| BM of Japanese equities | 16,679,614 | 54,155,544 | 238.25 | 175.65 | 85.96 |
| Global equities ex. Japan | 2,326,896 | 9,616,925 | 121.51 | 229.56 | 204.36 |
| BM of global equities ex. Japan | 2,316,547 | 9,541,564 | 120.97 | 229.67 | 187.00 |
| Japanese fixed income, corporates | 322,947 | 853,483 | 275.61 | 386.34 | 371.26 |
| BM of Japanese fixed income | 443,358 | 1,175,412 | 378.36 | 463.75 | 514.15 |
| Global fixed income, corporates | 39,710 | 187,244 | 73.72 | 186.97 | 188.40 |
| BM of global fixed income | 52,692 | 237,823 | 87.82 | 212.63 | 247.66 |

(Note 1) [GHG emission (Scope 1&2)]/Portfolio value

(Note 2) [GHG emission (Scope 1&2)]/Σ(Amount invested/Market cap * Sales revenue)

(Note 3) Σ[Portfolio weight * GHG emission (Scope 1&2)]/Sales revenue

* Market cap and enterprise value (Market cap + debt) are used for metrics calculation for equities and fixed income, respectively.

Japanese and global equity portfolios

- The carbon footprints and the weighted average carbon intensity of the equity portfolios are higher compared to the benchmarks, because:
 - Some of the Japanese equity fund has high weighted average carbon intensity characteristics.
 - The global equity portfolio has a higher percentage of emerging markets compared to the BM.

Japanese and global equity comparison

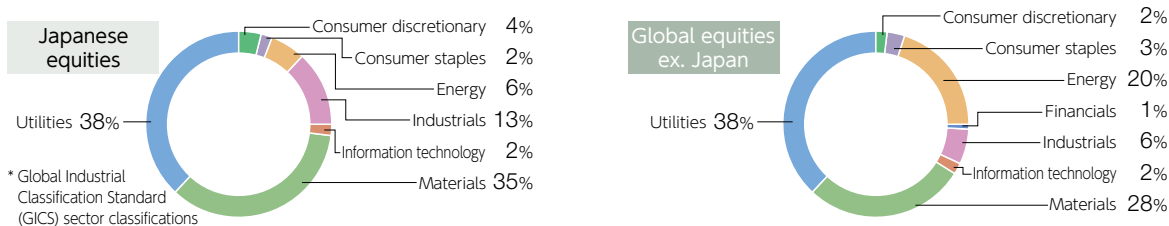
- The weighted average carbon intensity of MSCI ACWI is higher compared to TOPIX. The carbon footprints of sector contributions are similar between TOPIX and MSCI ACWI, but the weighted average carbon intensity of the materials and utilities sectors is higher for MSCI ACWI.

Fixed income (Japanese and global) portfolios

- Carbon footprints and the weighted average carbon intensity are lower compared to the benchmark, because the lower allocation to the utilities and materials sectors.
- Carbon intensity is higher compared to the equity portfolio, because the higher allocation to the utilities sector.

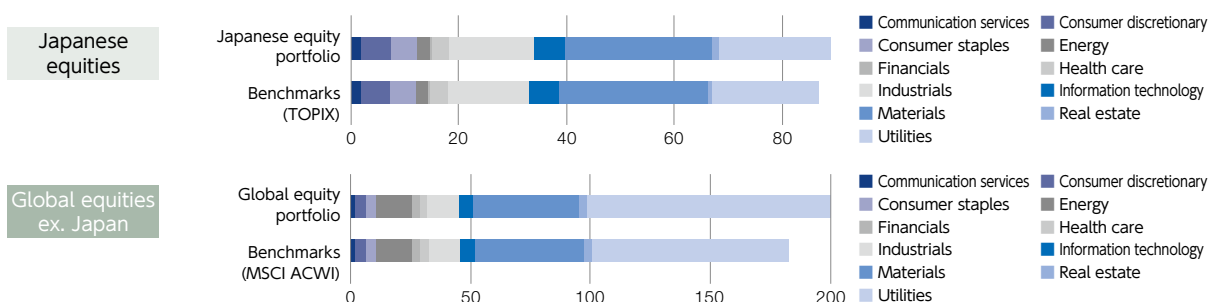
■ Sector contributions to GHG emissions (including Scope 3)

- Contributions on utilities and materials sectors covers about 70% for Japanese equities.
- The largest sector contributions are similar with the global equity portfolio, but the weightings on energy sector is higher.



■ Weighted average GHG intensity sector contributions

The weighted average GHG intensity sector contributions from the utilities and materials sectors on the global equity portfolio is 2.3 times of that of the Japanese equity portfolio.



Strategy

We will try to understand the risks and opportunities of the investee company in depth, and plan to conduct continuous engagement with the investee companies.

■ Scenario analysis

- The analysis is based on % alignment and includes scenario budgets and pathways for the portfolio and the benchmark. The % alignment is normalized at a 100% for the portfolio SDS.

Main findings

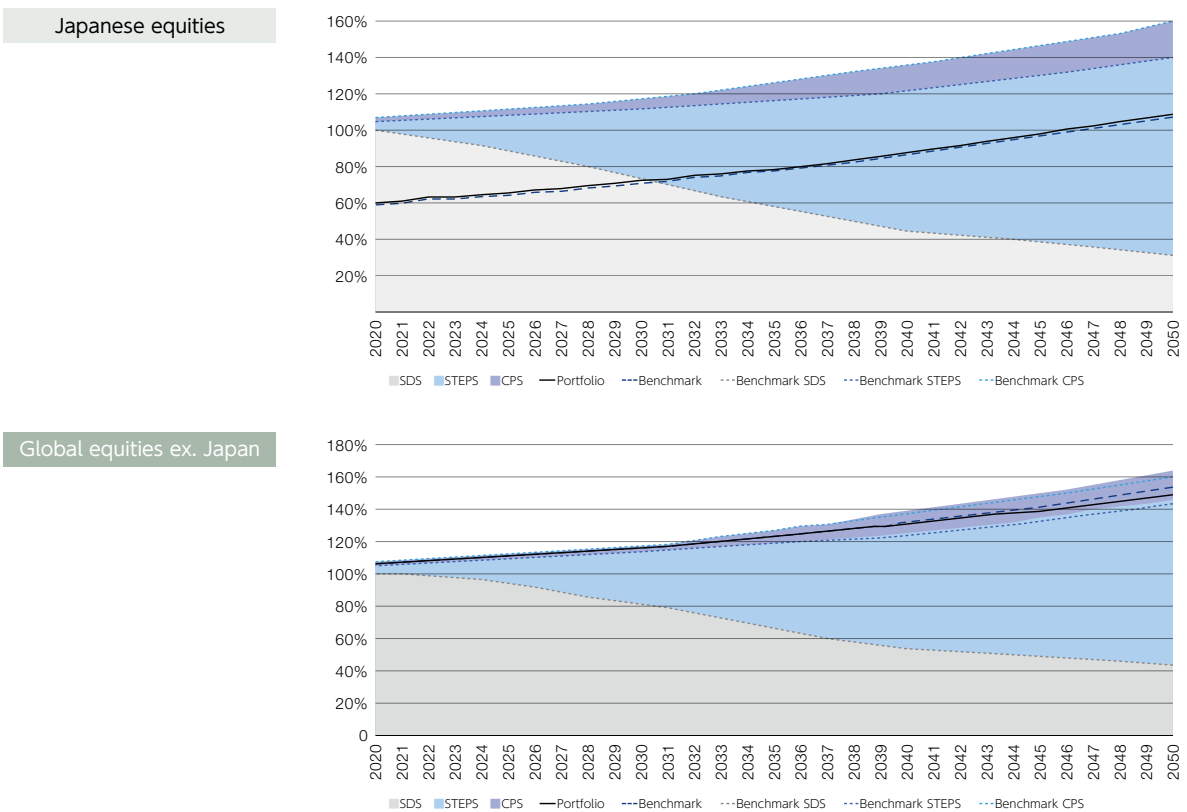
- Both of our Japanese and Global equity portfolios are not in line with the SDS scenario.
- Our Japanese equity portfolio will reach the SDS scenario budget in 2031, and the average temperature is assumed to rise by 2.4°C in 2050.
- As of 2020, our Global equity portfolio has already reached the SDS emission budget, and the average temperature is assumed to rise by 2.8°C in 2050.

(1) Sustainable Development Scenario (SDS):

SDS pathway is fully aligned with the Paris Agreement by holding the rise in global temperatures to "well below 2°C."

(2) Stated Policy Scenario (STEPS):

(3) Current Policy Scenario (CPS):



■ Subsequent actions to take based on scenario analysis, etc.

- GHG emission reduction is inevitable for our portfolio holdings to align with the SDS scenario.

Encourage additional disclosures

- We plan to encourage the investee companies to improve their climate related disclosure.
- Not every company is disclosing their emission data, and its reliability on the disclosures differs by each company.
- We will encourage the investee companies on following measures such as:
 - Disclosures through Sustainability Reports and CDP platform, TCFD disclosures
 - Donate supports to the TCFD recommendations and TCFD disclosures
 - Commitments to the SBTi.

- Improve reliability on Climate Risk Analysis tools which eventually leads to a better and interactive engagements between the investors and the portfolio companies.

Best practice sharing through engagements

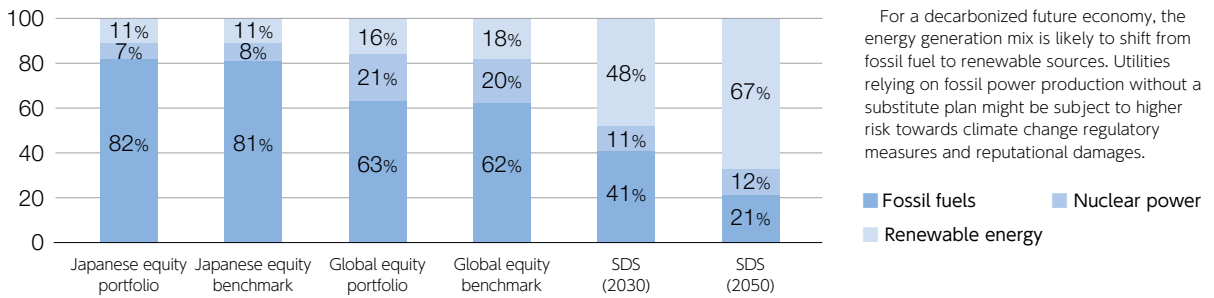
- We plan to support the investee companies that have high exposure to climate-related risk based on scenario analysis, etc.
- We will support them by sharing best practice cases through various collaborative initiatives, such as Climate Action 100+, and individual engagements.

Risk management

Transition risk

Climate risks consist of transition risk and physical risk.

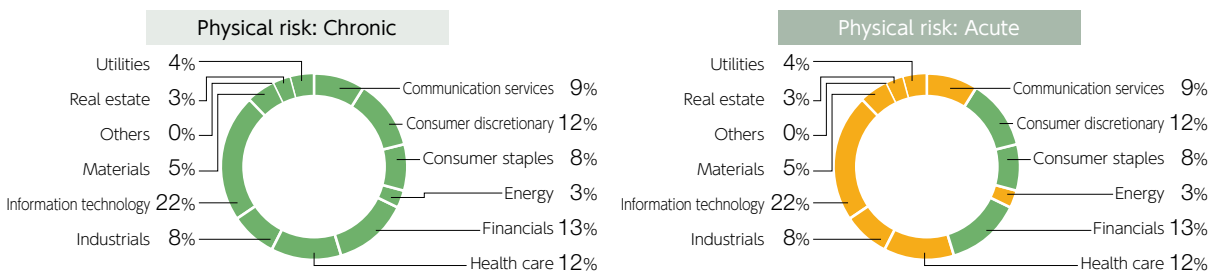
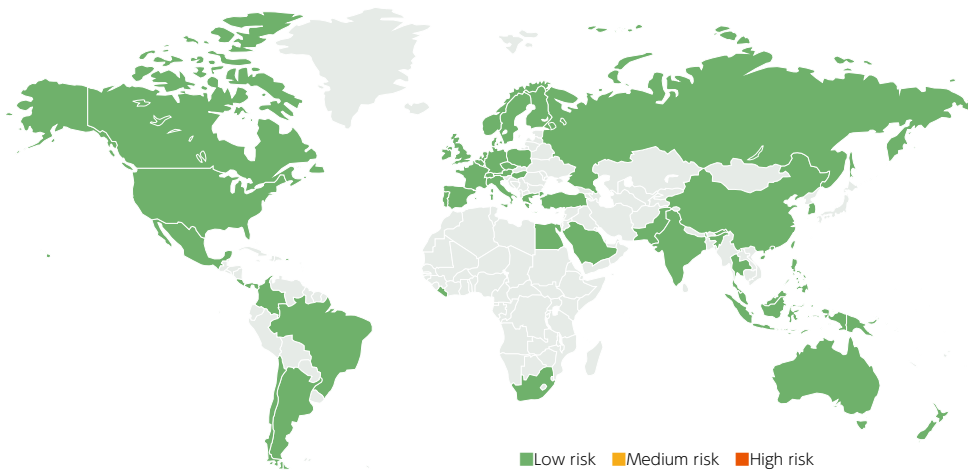
- A decarbonized world needs to address both the demand side (fossil fuels) and the supply side (i.e. fossil fuel reserves) of future emissions.
- The graph below shows the absolute share of % GWh produced from different sources by power generators in the portfolio.
- The graph below compares the energy generation mix of the portfolio with the benchmark and a Sustainable Development Scenario (SDS) compatible mix in 2030 and 2050, estimated by the International Energy Agency.
- The two right-most bars are static and illustrate a 2°C compatible generation mix in 2030 and 2050, according to the International Energy Agency.



Physical risk

We analyze physical risk by geographic region and business sector, divided into the categories chronic risk and acute risk.

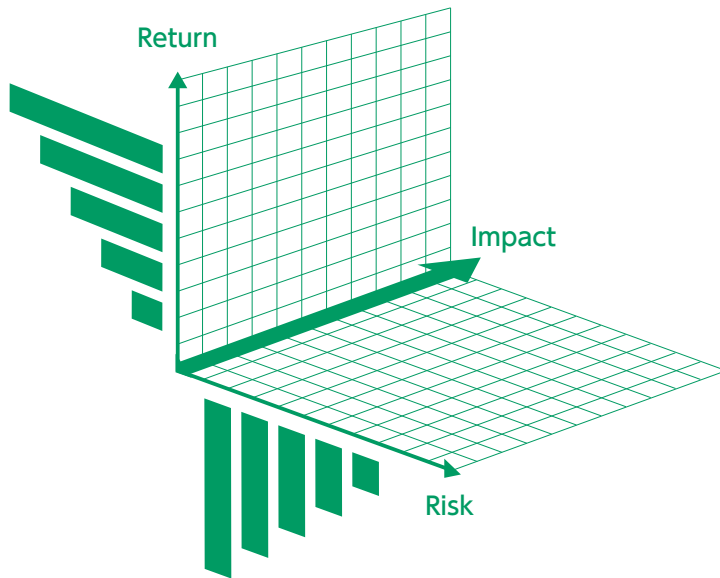
The global equity portfolio's exposure to risk is generally low in terms of the geographic distribution (right-hand side), but relatively high (acute) in terms of business sector (bottom). Geographic exposure of our global and Japanese portfolio is relatively low.



3 Impact management

■ Impact measurement

In this report, we will define “Impact Measurement” as an assessment methodology to measure the value of the social impacts created by each project.

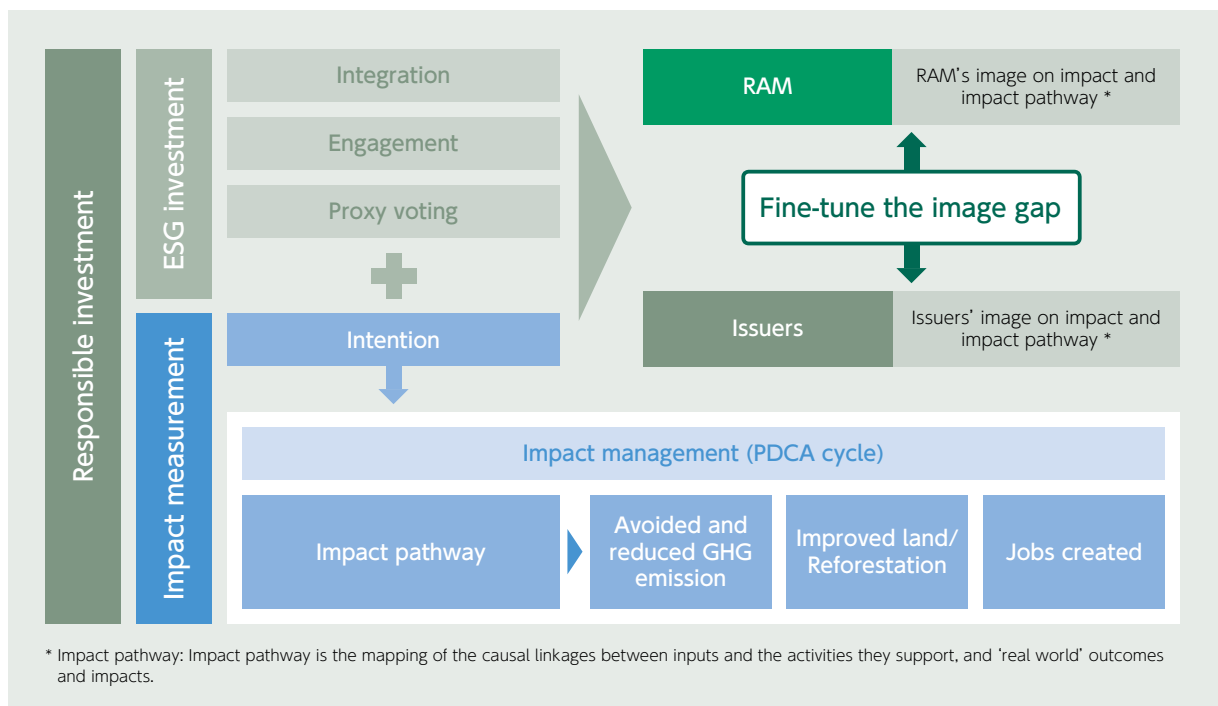


Four Factors of Impact Measurement

1. Intention
2. Financial Returns
3. Applies to Multiple Asset Class
4. Impact Measurement

■ Process image of impact management on sustainability bonds

Resona Asset Management (RAM) uses the following impact management process on sustainability bonds.





Intention and impact measurement on sustainability bonds

- Out of the 4 factors on impact measurement, we consider Intention as most important factor.
- It is important to construct the PDCA cycle on top of aiming financial returns, by additionally connecting intention and impact.
- We have chosen the approach, to present the lifetime impact, that impacts occur over multiple years.

■ Intention and scoping, selection of 3 major indicators

We have conducted scoping on our sustainability bonds holdings, and have selected and conducted impact measurement for 4 issuers on 3 indicators.

| | |
|-----------------------------------|---|
| Avoided and reduced GHG emissions | We have referred to "Social Cost of Carbon (SCC)," which values the damage resulting from current and future climate change attributable to each tonne of carbon dioxide equivalent (CO ₂ e) released in a given year. |
| Improved land/ Reforestation | The improved land / reforestation projects involve restoring an area of land from a degraded (pre-intervention) state to an improved or post-intervention state. We have referred to the difference in the value of ecosystem service flows provided by land in these respective states to estimate the value of these projects. In the present analysis, we applied this methodology to measure the monetary values (expressed in \$/hour per year) of ecosystem services "obtained" through enhancements, generated by reforestation and land improvement, that return existing (degraded) land to a natural or primeval state. |
| Jobs created | In addition to the direct jobs supported on each project, we assumed that there will be further jobs supported. When the employees of the projects spend money in the local economy, they generate economic activity and support "induced" jobs. |

■ Impact measurement on sustainability bonds

We have taken traditional environmental and social metrics and converted them into monetary values that measure a change in wellbeing for people, by referring to various studies on methodology.



Results of assessment → Overall valued impact on sustainability bonds by project category

| | Avoided and reduced GHG emissions | Jobs created | Improved Land/Reforestation |
|-----------------------|-----------------------------------|--------------|-----------------------------|
| Renewable energy | High | Low | None |
| Green banking | Medium | None | None |
| Energy efficiency | Medium | None | None |
| Sustainable transport | Low | Low | None |
| Agriculture | None | Low | High |
| Others | None | None | None |

Points to note

- We did not determine additionality^(Note 1)
- We did not determine negative impact.

Note 1: Additionality is the added value that could be generated only for the project in question through such impacts as job creation. It refers to the (net) value excluding any value that would likely have been generated even if there had been no investment in the project.

Impact management

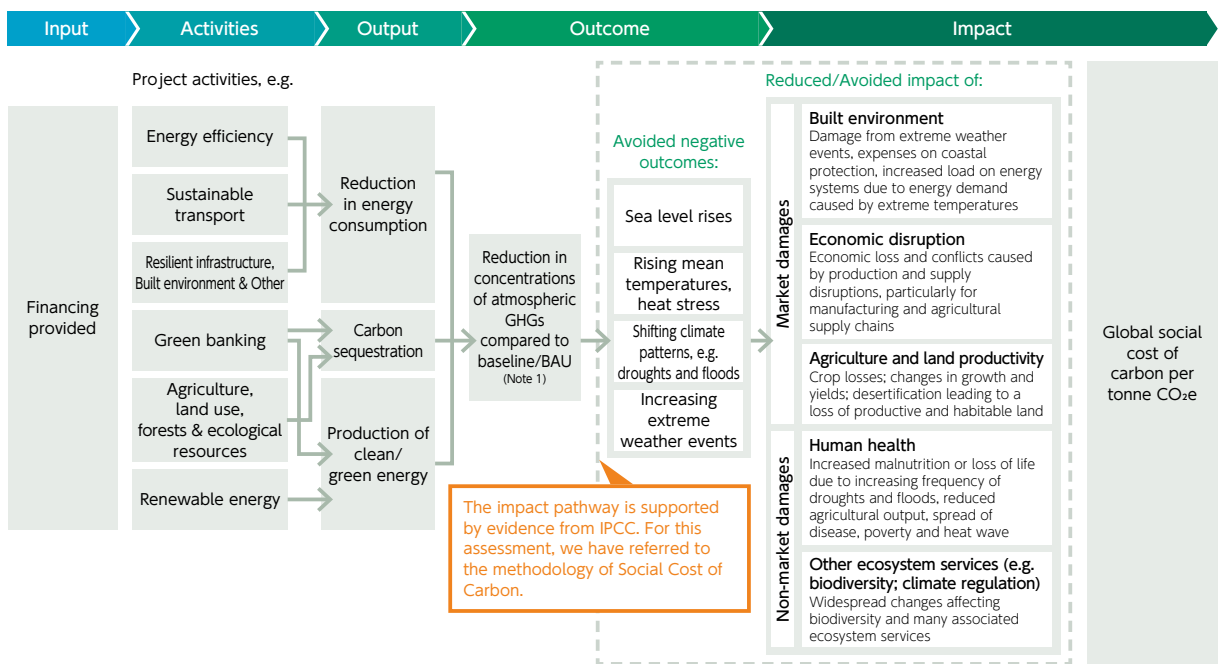
Impact pathway

An impact pathway maps the causal linkages between inputs and the activities they support (e.g. the funding and projects it supports) and 'real world' outcomes and impacts.



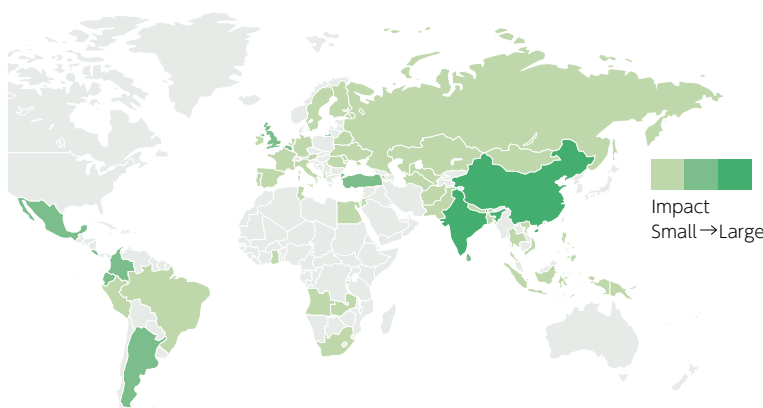
Impact pathway -> Avoided and reduced GHG emissions

We have referred to the methodology of Social Cost of Carbon, SCC.



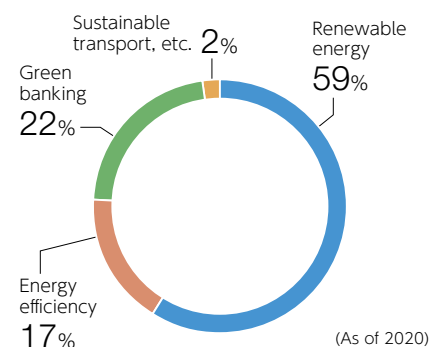
Results of assessment -> Value of GHG emissions avoided or reduced

For the majority of the impacts, the contribution of renewable energy, in particular wind energy, is significant. In terms of geographical distribution, the individual projects are dispersed across their respective countries, but the impacts transcend borders and are perceived at a global level.



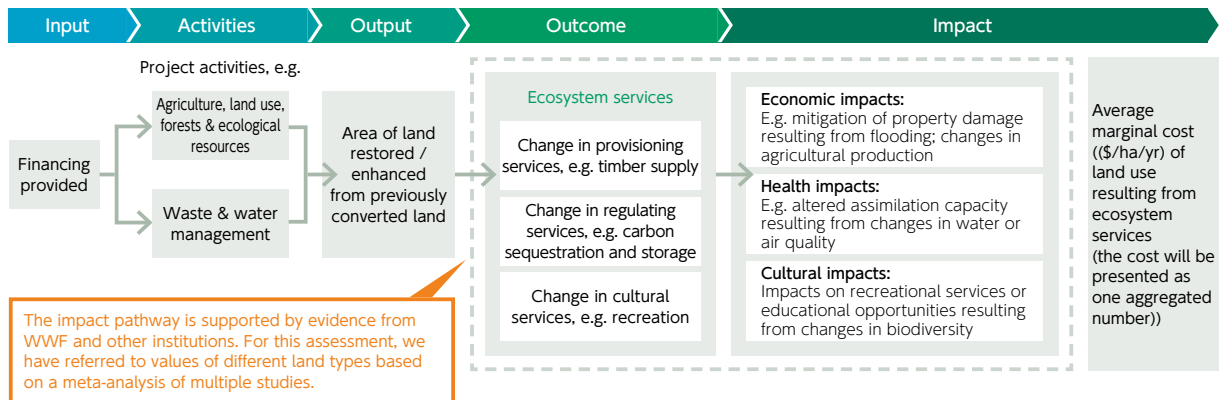
(Note 1) BAU: No particular countermeasures taken (Business as usual)

Reductions in GHG emissions by category



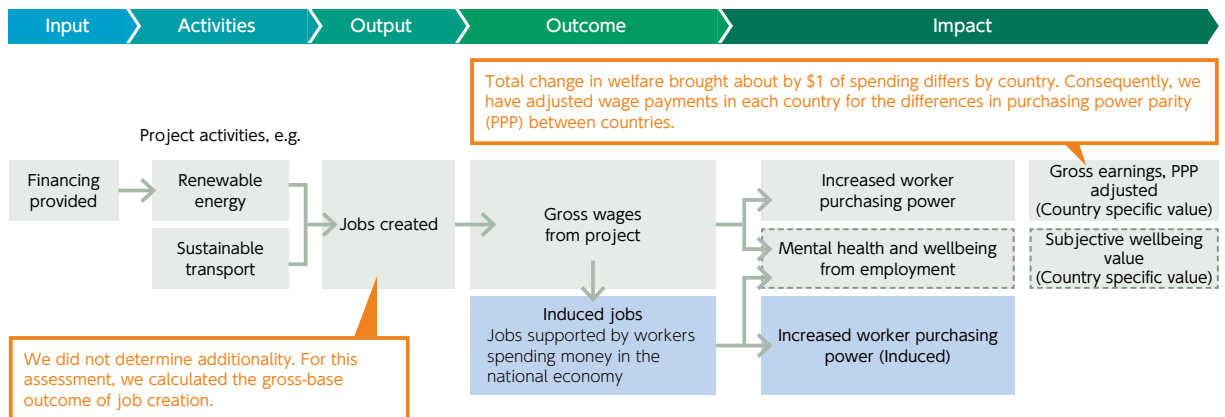
Impact pathway → Improved land / reforestation

Only the output, the state and the area of the pre and post-intervention was available from the issuers' impact report. Therefore to estimate the value of these projects, we have examined the difference in the value of ecosystem service flows provided by the degraded (pre-intervention) and the improved (post-intervention) state.



Impact pathway → Jobs created

Only the output (number of jobs created) was available from the issuers' impact report. Therefore we have referred to secondary data to estimate the outcome (total salary from the projects).



Challenges to impact management

- Further refinement & update on the methodology and coverage expansion is necessary.
- Implementation on investment decision: Current impact assessment result is used as a “consideration factor” to our investment. But going forward, we would like to consider to take more in-depth measures towards using these assessment results.
- Dialogue with the issuers: Improved effectiveness on focused dialogue is inevitable. We would like to share these assessment results with the issuer to conduct focused dialogues, and to find out the potential risk of each project. We aim to conduct the dialogue to close the gaps between the issuers' and our intention on the social impact.

Taking responsibility and acting to realize our vision for the desirable economic systems of the future



A discussion was arranged between Takeshi Mizuguchi, professor at Takasaki City University of Economics, who is a leading authority on responsible investment, and Minoru Matsubara, executive officer and general manager of the Responsible Investment Division at Resona Asset Management. They discussed the purpose of investment managers and the history of responsible investment, the economic model under stakeholder capitalism, Resona's efforts to undertake impact investment, and other topics.

○ The purpose of investment managers

Mizuguchi: How would you sum up what "stewardship" means for Resona?

Matsubara: It means that we should demonstrate readiness to engage with the capital markets and the environmental and social issues surrounding them to fulfill our purpose as an investment manager.

Mizuguchi: Society and the environment receive both positive and negative impacts from capital markets. That being the case, you seem to be saying that Resona intends to use its own power for positive ends.

Matsubara: First, I think we need to be aware that our assets under management are not our proprietary funds, but are entrusted to us by our clients. It is our role to manage those funds and ultimately contribute to our clients' asset formation.

From that perspective, it is our clients' sustainability that is of primary importance. This is followed by the sustainability of the investee companies. And another important element is the sustainability of the society providing the structure that supports the corporate operating environment. We believe that in order to support the sustainability of our clients, we must ensure the sustainability of companies, society, and the environment at the same time.

Demonstrating the role that financial institutions and investment managers can play is what we are mandated to do by the public and companies, as well as by the clients who entrust us with their funds, and is our responsibility in terms of stewardship.

○ The economic model under stakeholder capitalism

Mizuguchi: I believe Resona's long-term view is that thorough safeguarding of society and the environment will protect the foundations underpinning economic activities, resulting in improved investment performance. In reality, however, society

and the environment have not necessarily been safeguarded. Why might that be? And what do you think we should do going forward?

Matsubara: Our hypothesis is that the 20th century economic model and the 21st century economic model differ. The factors contributing to this difference are the explosion in the global population, the fact that we are now paying the price for our mass production hitherto, and the danger signals that are now flashing with regard to these risks and other aspects of the Earth's sustainability. We think factors such as these operate as strong forces driving us to orient ourselves toward the 21st century economic model.

If these forces are considered with reference to capitalism, the transition from shareholder primacy to stakeholder capitalism was perhaps already inevitable. We believe that the three key pillars of the economic model under stakeholder capitalism are: "an inclusive social economy," "a sustainable environment," and "corporate purpose." We regard these three pillars as the keys to linking social sustainability and corporate sustainability.

○ Our plan to collaborate with other investment managers

Mizuguchi: So, you are saying that Resona intends to act in accordance with the 21st century economic model. In that case, what is the difference between Resona and other market players? In other words, what makes Resona distinctive?

Matsubara: I think that what differentiates us is that we plan to cooperate with other investment managers. Like any company, we feel a certain compulsion to win when competing with others, but when it comes to protecting and developing the capital markets, it is crucial to be willing to collaborate.

Mizuguchi: Are you referring to collaboration among investment managers?

Matsubara: That is right. Collaboration has been our watchword for more than five years. We are strongly committed to playing a kind of "adhesive" role, and we believe that this will enable us to differentiate ourselves.



**Minoru
Matsubara**

Executive Officer, General
Manager of Responsible
Investment Division,
Resona Asset Management
Co., Ltd.



**Takeshi
Mizuguchi**

External expert member of
Responsible Investment
Committee

Vice President, Takasaki
City University of Economics
Professor, Faculty of
Economics

Leading initiatives within Japan

Mizuguchi: It is certainly true that Resona has demonstrated leadership in furthering collaboration among investment managers. For example, Resona has been leading various initiatives in Japan including the Principles for Financial Action for the 21st Century and the Institutional Investors Collective Engagement Forum (IICEF).

Matsubara: We became involved with the Principles for Financial Action for the 21st Century around five years ago. Our first involvement in collaboration was through participation in the PRI Japan; I believe we were one of the companies that initially established the network. Resona has served as chair of the PRI Japan Network's advisory committee and its corporate Working Group (WG), which is a network with the involved companies. We have continuously been involved since the early days of the network, and I think we were one of the few investment managers that understood what collaboration means these days in a practical sense.

Mizuguchi: What spurred Resona to get involved in initiatives such as these?

Matsubara: The international PRI network was launched in 2006, and we became a PRI signatory in 2008. It was in 2008 that Lehman Brothers collapsed, followed by a period when the financial industry's raison d'être was called into question. But becoming a PRI signatory made us be keenly aware that the role of financial institutions is to contribute to society by dedicating themselves to social, environmental, and governance causes, and that we had been entrusted with that role. Our involvement with the Principles for Financial Action for the 21st Century included chairing its Investment WG, and while serving as a Member of the Committee I think we have succeeded in demonstrating leadership in various ways, including participation in a range of platforms.

Mizuguchi: Have the networks and cooperative relationships among participants developed?

Matsubara: As you would imagine, there must have been some investment managers that were skeptical about the value of

networks at first. But once they experienced firsthand how a major movement can form as a result of investment managers getting together, they became capable of building cooperative relationships.

Later, the IICEF was established, and there too major investment managers began to gather and tackle issues together, such as corporate governance. We regard this as a virtuous cycle of collaboration-based development that follows the establishment of a framework for increasing and sharing successful outcomes leading to advancement in capital markets and society.

Establishing a unique position through overseas networks

Mizuguchi: I understand that Resona also participates in quite a number of overseas networks. What sorts of networks is Resona involved in?

Matsubara: Resona participates in FAIRR, KnowTheChain, CA100+, AIGCC, and ICGN, among others, and we are working hard to extend our networks that extend overseas.

Mizuguchi: Active participation in overseas networks seems quite progressive for a Japanese financial institution.

Matsubara: We first participated in the PRI Japan Network in 2010, so I think we joined relatively early. At the time, we set three key topics for WG activities: ESG integration, engagement, and reporting.

As far as engagement was concerned, we were required to actively appeal to other members to cooperate with entities overseas, and to take the initiative in setting an example, so I think it was easy to build the PRI network and other networks with overseas connections.

Mizuguchi: Was there anything you learned, or anything you came to understand better in the course of your involvement with overseas activities?

Matsubara: Five years ago, the key topic in Japan was corporate governance. But overseas the focus was on externalities such as climate change and human rights.



Minoru Matsubara

Has served in his current position since April 2020. Joined Resona Bank in April 1991 and was assigned to the Pension Trust Business Planning Division. Was subsequently assigned to operational management, planning, and responsible investment in the Investment Development Office, as well as the Public Funds Business Planning Division, the Pension Trust Business Planning Division, the Asset Management Business Planning Division, etc. His public offices have included committee positions in the Ministry of the Environment, the Ministry of Economy, Trade and Industry (METI), the Ministry of Agriculture, Forestry and Fisheries, the Cabinet Office, etc. Has frequently lectured on ESG and responsible investment, among other topics.

Seeing with my own eyes the difference between Japan with its focus on E and G (governance) issues and overseas with their focus on E and S (environmental and social) issues had a huge impact on me.

Mizuguchi: Engagement by overseas financial institutions and institutional investors gives the impression of being quite combative. What do you think of their approach of saying exactly what needs to be said, without necessarily taking the other side's feelings into account as we do in Japan?

Matsubara: When we are working on the CA100+ initiative, for example, people do tell me that Japan's actions are very amicable compared with those of Western countries. I think the approaches differ according to whether an investment manager confronts investee companies, or aligns itself with them.

But if an investment manager confronts an investee company without having first shared its goals, the only result will be an impasse. This shows that it is important for both the investor and the investee to ultimately arrive at their goals as planned. A distinctive feature of Japanese culture is the supportive approach to engagement, so I found many situations bewildering at first.

Mizuguchi: So, overseas investors do not want to attack investee companies either; it is just that their approach is more demanding, although they share the same goals.

Matsubara: There are aspects of that approach we could learn from other countries, while Japan's own approach is also valid. It is very important to maintain a balance between the two. Not only do we sometimes need to say, "That is a specifically Japanese issue, so please let us deal with it in Japan." We also need to constantly reflect the speed and the direction that the world is heading in. If Japan is starting to lag behind, we need to think what is required.

Mizuguchi: So you are saying that Resona does not forget the worldwide perspective and keeps a close watch on what is

happening in the world as a whole. At the same time, it plays a crucial role by acting as a buffer, to employ an approach suited to Japan. It seems to me that Resona has forged a unique position in the ESG investment market.

“Good companies” within the 21st century model of capitalism

Matsubara: We are required to continuously invest in good companies in order to increase assets stably. Good companies are defined according to a variety of investment philosophies, such as companies that have future growth potential, as well as companies that are currently growing. Our integration approach defines good 21st century model companies that fully incorporate ESG elements.

Mizuguchi: So good companies differ between the 20th century and the 21st century models of capitalism? And you are saying there is a sound investment philosophy to support this.

Matsubara: That is where I think Resona differs from other investment managers. The reason for communicating Resona's intentions is that, as an institutional investor, we are targeting a certain form of society and we have our own vision for desirable economic systems. We believe that realizing these aspirations will enable us to discharge our fiduciary duties—that is, our duty of loyalty and our duty of care—over the long term. We are convinced that sustainability for society leads to sustainability for companies, which results in sustainability for everybody. That is the key message we want to tie in with our fiduciary duties. The good companies of the 21st century model, whether they are growing companies or companies with future growth potential, will all share a common concern: how to tackle the issue of society's sustainability. I believe that this will lead to ESG integration.

Mizuguchi: Toward the beginning, this Stewardship Report indicated that Resona is seeking to create new forms of capital markets. So, I take that to be Resona's overall intention, and indicative of the type of society that you are aiming for.

Holding weekly responsible investment meetings

Mizuguchi: The ideal form of investment ultimately comes down to so-called investment philosophy, and individual investment managers invest according to their own philosophies. Would you agree that putting those philosophies into practice requires both knowledge and a methodology to discern whether individual investee companies fit with the investment manager's intentions or not?

Matsubara: Sharing information on current thinking with regard to ESG issues is a key element in this. The responsible investment framework including ESG investment provides a platform for individual investment managers to share information. We are constantly building the necessary awareness by regularly arranging occasions for knowledge sharing. We provide opportunities to gain insights by holding responsible investment meetings once a week at 9 a.m. on Monday mornings, when people's brains are at their most flexible. We believe that there is a point to hold the meetings

first thing on Monday mornings, rather than on Friday evenings.

Mizuguchi: Who participates in these meetings?

Matsubara: They are organized as high-level meetings, where the president and executive officers responsible for the Asset Management Unit, as well as general managers of the investment divisions, attend. Professionals directly involved in investment decisions also take part, and recently more of them are participating online.

Mizuguchi: I see; so the participants gather every Monday morning to share and exchange information about ESG-related topics. As a result, the president is well-informed about ESG, while investment professionals also understand the ESG issues. From now on, I think that levels of ESG literacy will make the difference between winning or losing, so it is important to have a mechanism for spreading understanding to more people within the company.

○ The team and stakeholder dialogue that underpin responsible investment

Mizuguchi: As introduced in the Engagement Report section, Resona is extremely energetic on engagements on the palm oil issue. I sometimes meet with the professional who actually undertakes such engagement, and he is very enthusiastic and knowledgeable about the palm oil issue. Has he always been so enthusiastic and knowledgeable?

Matsubara: He was an analyst specializing in the food industry who was transferred to the Responsible Investment Division. Where engagement is concerned, it is most important to: (1) be familiar with the industry, (2) be capable of financial analysis, and (3) be able to communicate with companies. We asked for the analyst to join our team, as we thought that engagement should be undertaken by someone who had already been dealing directly with companies for some time.

Mizuguchi: So, engagement on the palm oil issue requires a food-sector professional. And that is why you had a food-sector analyst join the Responsible Investment Division.

Matsubara: We asked him to use both his industry knowledge and his faculties as an analyst, and we shared all the necessary information with him. But despite having a former analyst working with us, we still have some organizational challenges. We need to bring more diversity into our organization. Unless we incorporate greater diversity, our sensitivity to the externalities that give rise to social and environmental issues will not genuinely increase.

Mizuguchi: But, even if that food analyst was knowledgeable about the industry, he probably did not start off knowing a great deal about environmental and social issues such as forestry-related issues or palm oil. So he managed to change considerably as an individual.

Matsubara: I think the regular meetings with CSR Review Forum, the NGO you introduced to us, played a major role in that. He attended every meeting and learned about what are the social issues, and what are the palm oil issues. And it was very valuable for us that he was also able to discuss how these issues should be resolved. I think the interaction with people who have a diverse range of values ended up strengthening his own individuality.

Mizuguchi: I have certainly met various professionals at CSR Review Forum. I think the fact that Resona is in contact with an



Takeshi Mizuguchi

Vice President, Takasaki City University of Economics. Professor, Faculty of Economics. Chairman of FSA Expert Panel on Sustainable Finance. Ph.D. (Business Administration; Meiji University). Has served in his current position since 2008. After working at a trading company, an audit firm, etc., became a lecturer at Takasaki City University of Economics in 1997. Specializes in responsible investment and disclosure of non-financial information. Main books authored include *ESG Investment: A new form of capitalism* (Nikkei Publishing Inc.; published in Japanese) and *Responsible Investment: Changing the future with capital flows* (Iwanami Shoten, Publishers; also published in Japanese).

NGO is something else that puts it in a unique position.

Matsubara: We are also holding discussions with those who we can share common objectives with, even if their values differ from ours. They are representatives of various policymaking authorities and labor unions; experts including you, Professor; and members from overseas networks. During these discussions we always receive tips about areas where we are not doing enough, or about issues offering potential for deeper, broader engagement.

○ Intentions on impact management

Mizuguchi: Resona will also invest effort in impact management; please explain the company's initiatives in this regard.

Matsubara: There are four key elements involved in undertaking impact investment; they are (1) intentions, (2) financial returns, (3) wide-ranging asset classes, and (4) impact assessment.

We believe that the element of intentions is the most important of these. The reason we set out our aspirations for ourselves as a company and for society, as well as our 21st century model of capitalism, is that we believed these would serve as the premises upon which to build solid intentions. As a result, we have now set the three intentions of GHG emissions reduction, forest regeneration, and job creation.

When assessing impact, it is extremely important to create a PDCA (plan, do, check, act) framework for understanding how our intentions link to the effects measured. In concrete terms, this means we must create a logic model, and a PDCA cycle. A logic model is a hypothesis for how our intentions will manifest fully in line with a temporal pathway. This is what is referred to as an impact pathway.

We would like to present how we set timelines and approaches, and how we assess impacts.

Impact investment as the next level of responsible investment

Mizuguchi: Resona was already practicing responsible investment, so what is the relationship between responsible investment and impact investment?

Matsubara: Our idea of responsible investment essentially comprises integration, engagement, and proxy voting. We have now added our intentions to these elements.

Mizuguchi: Did Resona already not intend to create a 21st century model of capitalism?

Matsubara: Yes, but we had no mechanism for setting that intention in motion. The aim of the impact management is to emphasize how we can use our intentions to influence the capital markets and change the nature of finance itself.

I do not know whether we can actually manage this on our own, but I do think it is important to communicate our determination to take this practical action.

Mizuguchi: So, it is about management involving clearer intentions and explicit measurement of impacts. In other words, it takes Resona's existing responsible investment to the next level by also closely monitoring impacts as part of management. So, methodologically speaking, it seems that approaches such as integration and engagement would also amount to impact investment. It could be argued that the most important element of impact investment is engagement, so does that mean it is not simply about providing money?

Matsubara: We will not simply be providing funds; we will also be engaging with investees to fulfill our responsibilities to investing. We will ensure that expectations are aligned by engaging companies in dialogue to resolve any differences between what they are envisaging and what we are envisaging in terms of impacts. This is how we will put impact investment into practice, as a successive process.

Engagement by making use of impact pathways

Mizuguchi: It is difficult to understand the specific forms that impact investment might take, but would it be right to regard investment in green bonds as the first step?

Matsubara: If all we do is to establish a framework for investing, it is nothing more than pie in the sky. The point is, green bonds provide the means for us to develop impact management.

Mizuguchi: Do you mean that, rather than simply putting funds into green bonds, Resona itself will assess their impacts?

Matsubara: We have been monetizing the impacts on green bonds, rather than assessing the investment performance. I think that is one of the key things that sets us apart. When you are trying to manage an entire portfolio, you need some form of standardized yardstick. For instance, hours worked cannot be compared against GHG emissions volumes. Benchmarks are needed, so we created a mechanism for monetizing the impacts across the portfolio.

Mizuguchi: So Resona wants to properly assess whether its investments are genuinely having an impact, as well as the scale of that impact.

Matsubara: It is the impact pathways that we regard as

important. We have endeavored to determine the impact pathways, which are the routes along which effects spread to the point where actual impacts manifest, and to measure the portfolio's impacts along these pathways. We will check which geographical areas have the most pathways, and compare our estimated impact assessments with the issuers' impact assessments, for engagement.

Mizuguchi: So Resona will actually assess several green bonds, and compare its impact assessments with those of the issuers, using its own assessments as the basis for engagement. What form is that engagement likely to take?

Matsubara: The topic of initial engagement meetings will be the degree of consistency between our version and the issuer's version of how impacts will manifest from these impact pathways. That is to say, I think that discussions and engagement will address the processes and timelines on which impact-related figures are based, rather than focusing on whether the figures themselves are correct.

Taking on the challenge of impact investment in equities

Mizuguchi: How will Resona expand this current initiative targeting green bonds?

Matsubara: As you would expect, we will be targeting equities next. The challenge with equities is that, unlike with green bonds, we will be dealing with companies that operate a whole range of businesses. The same company could have both positive and negative impacts. So, it is extremely difficult to quantify these impacts in monetary terms. I think it is really challenging to work out using the existing framework.

Mizuguchi: When green bonds are issued, the purposes of the funds usage are specified, but with equities the use of funds is up to the companies. Money is used for all kinds of things, but it seems that Resona is trying to evaluate those usages.

Matsubara: I think it will be a case of discussing with companies how they view their impact pathways just before quantifying their impacts in monetary terms.

Mizuguchi: So you will be keeping impacts more clearly in mind when engaging with companies.

Demonstrating Resona Asset Management's character by establishing impact funds

Matsubara: We are planning to create "impact funds" of listed equities. Their sole purpose is to achieve our intentions. We will be focusing our efforts on how we can get closer to achieving our intentions through investing in equities. We are planning to establish two listed equity funds: one for Japanese equities and one for global equities.

Mizuguchi: That should raise the visibility of investment's role in making society a better place. Let us hope that these funds will come to symbolize Resona's stance toward investment.

Matsubara: Our objective is not simply to create these funds; every year, our Stewardship Reports will disclose to the public how we are getting closer to achieving our stated intentions.

I think that until now investment managers have appeared completely characterless from the client's perspective. It seems to

me that, even if they have a prestigious company name, investment managers have made no impression in terms of the type of company they are. But we believe it is our intentions that lend us character. And we want potential clients to decide whether our character appeals to them. In other words, we hope to change our role so that potential clients choose us for the type of manager we are, rather than for the funds we invest in.

Mizuguchi: The idea of lending character to an investment manager is a good way to put it. I take this as a declaration that from now on Resona will be competing on the basis of whether potential clients choose its character. Are the impact funds aimed at individual investors or pension funds?

Matsubara: We intend to offer both. We want to show an aspect of our character to individual clients too, in the form of our impact funds.

○ Aspiring to be a manager that can provide abundance and happiness to future generations as well as our own

Mizuguchi: So, what will Resona Asset Management's character be? What is the company's message?

Matsubara: Our message is that we want to change the current society; we have a job to do for the next generation. I believe that the point of long-term investment is not only to make the current generation affluent, but also to make the next generation affluent, and that is the responsibility we have been charged with.

We aspire to be a manager that can provide abundance and happiness to future generations as well as our own. To achieve this, we need to preserve the current natural and social environments, and to further develop them. And we need to

ensure that these environments remain sustainable for companies, and for everybody. I think our character involves taking responsibility and acting to realize our vision for the desirable economic systems of the future.

○ Speed and communication is called for

Matsubara: Finally, could you explain what you think Resona's remaining issues are, and what you expect of us in future?

Mizuguchi: I think Resona's efforts are making steady progress year by year. I would like to commend you personally for aspiring to turn Resona into a "Future Maker," and for what you have done so far to put that into practice. I am looking forward to seeing Resona make 21st century model of capitalism a reality. If I were to point out any issues, perhaps they would be speed and communication.

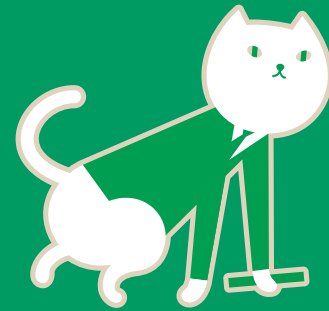
The world's environmental and social issues have now really reached the limits of what can be endured; and our societies could head in undesirable directions if no actions are taken. I think that the Western investors are already aware of these risks. I am sure Resona is also working hard to address these issues, but it could perhaps do more to transmit its messages to the public.

For example, institutional investors in Europe and the United States responded promptly to the COVID-19 pandemic by collaborating to issue various statements. Yet, there are no obvious messages coming out from Japanese institutions. Resona is already playing a key role, not least by facilitating collaboration among Japanese institutional investors. But I would like to see Resona play a role to react proactively and rapidly in response to these urgent environmental and social issues globally.



Chapter 3

Passive Investment Stewardship Activities

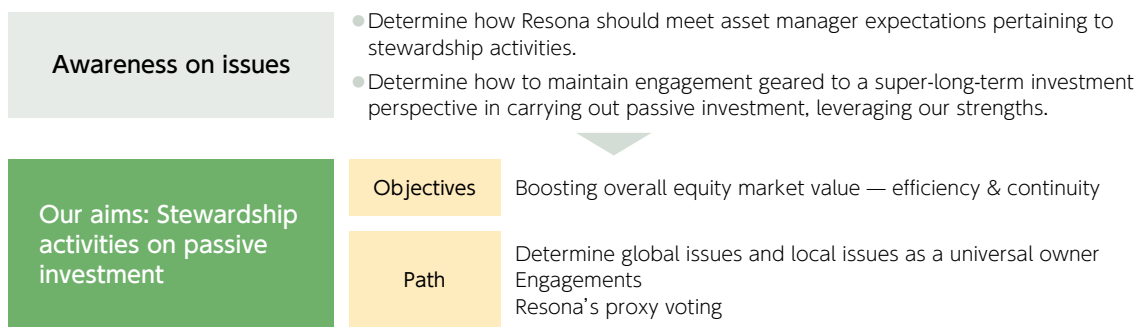


- We will practice an engagement strategy geared to finding solutions to ESG issues across society by identifying responsibilities for social sustainability.
- We will fulfill our role in acting as a responsible investor with respect to providing support of universal ownership as a long-term investor.

In order to make our vision as described above a reality, the Responsible Investment Division maintains dialogue and engagement with investee companies, and conducts proxy voting based on our basic policy on responsible investment.

In terms of the types of stewardship activities, we engage in as a long-term investor and our passive engagement approach that leverages the strengths of Resona Asset Management, our longstanding experience and discussions with stakeholders have given rise to our current stewardship activities for passive investment. This section introduces our overall stewardship activities, and approaches and details of activities undertaken.

■ Basic approach to stewardship activities on passive investment



■ Passive investment dialogue and engagement

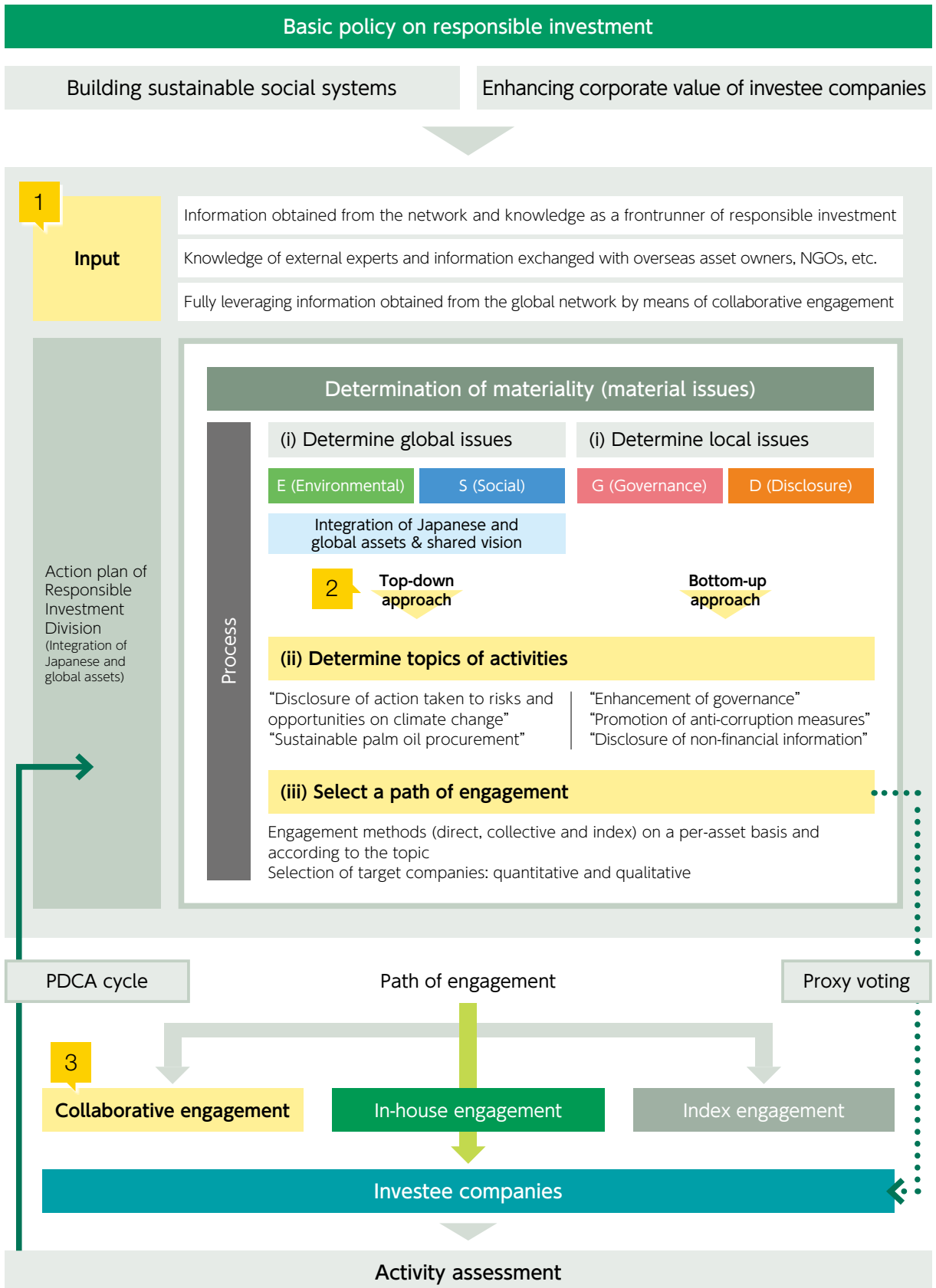
We will strive to help boost the overall equity market, which will involve undertaking engagement on the basis of appropriately determined issues as we assess corporate sustainability from the perspective of ESG and take a process-centered approach to hastening improvement.



- 1 Long-term investor perspective (importance)**
 - Addressing global and local issues
 - GHG emissions, supply chain management, board composition, etc.

- 2 Possibility of change in companies perspective (effectiveness)**
 - Awareness → disclosure → dialogue → monitoring
 - Collaboration with other investors (Collaborative engagement)

Overview of passive engagement



Three distinctive aspects of passive engagement

The Responsible Investment Division carries out passive engagement that balances low cost and effectiveness, underpinned by the three distinctive aspects of network, top-down approach, and +Collaboration.



1 Network (Effectiveness and efficiency in information collection)

Stakeholder dialogue

Utilizing the network we developed as a pioneer in responsible investment, we initiate proactive interactions with experts, NGOs, government officials, long-term overseas investors, labor unions and various organizations, and gain insight into their advanced knowledge.



| | |
|------------------------------|--|
| Experts | When promoting corporate governance and ESG initiatives, we work with university professors and other experts on a regular basis to gather information and exchange opinions. |
| NGOs | Through the CSR Review Forum-Japan, we study diligently and work to raise our awareness with NGO personnel and experts both in Japan and overseas. |
| Government officials | We serve as the joint chair and steering committee member of the Asset Management/Securities/Investment Banking Working Group in the Ministry of Environment's Principles for Financial Action for the 21st Century, as well as a member of METI's "Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value." |
| Long-term overseas investors | We cooperate with overseas investors in relation to collaborative engagement and individual themes. |
| Labor unions | We work as a member of the Research Institute For Advancement Of Living Standards' "Research Committee Investigating Information Disclosure For 'Better Companies' And The Promotion Of Principles For Responsible Investment From The Viewpoint Of Working People." |
| Various organizations | We have proactively participated in the PRI Japan Working Group as a signatory organization since the establishment of the PRI Japan Network in 2008, working as an advisory committee member. |

Information collection activities in 2020

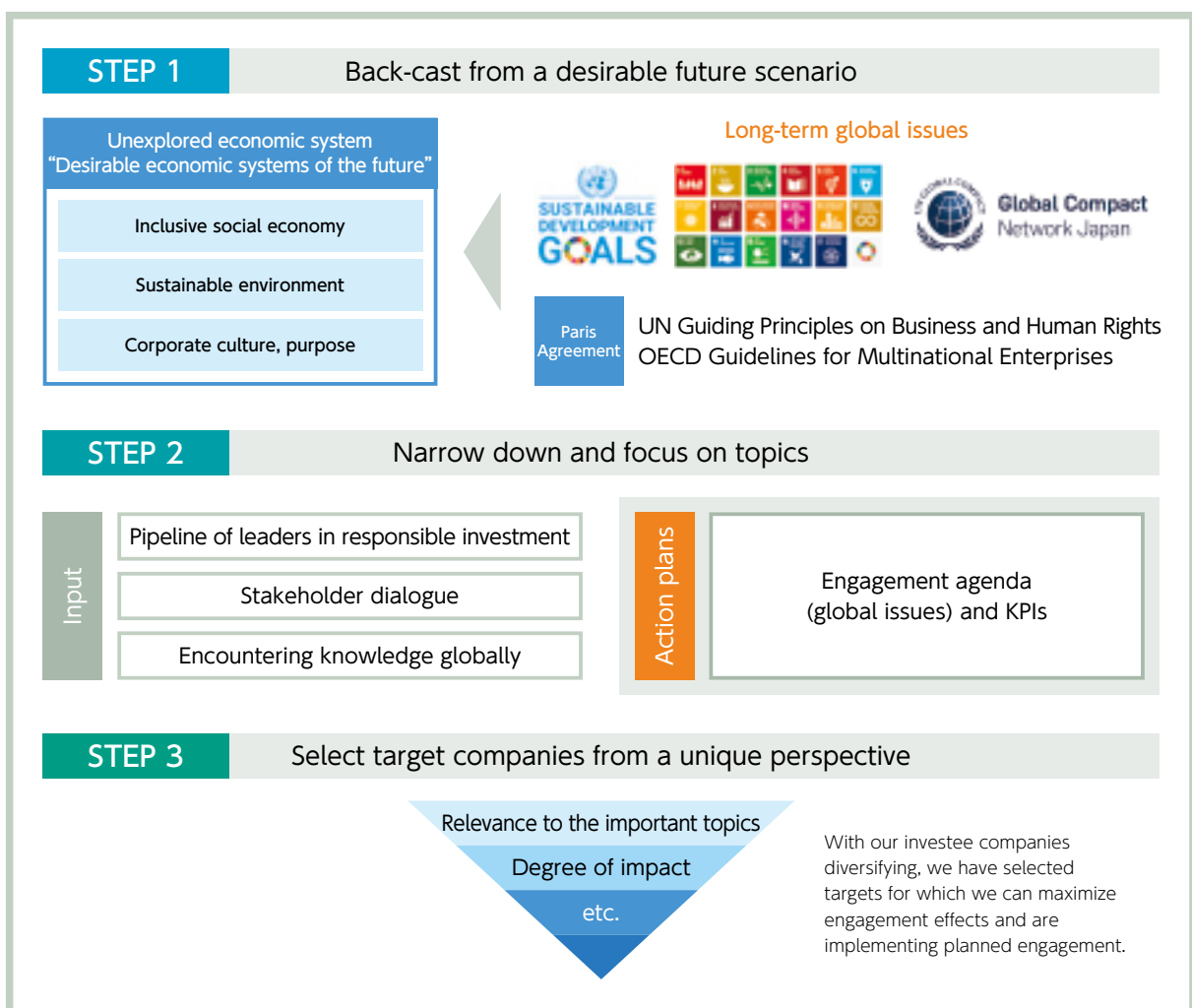
- Following the spread of the coronavirus pandemic in 2020, a large number of webinars and online meetings were held.
- We participated in the "COVID-19 Series" of webinars held by ICGN in June. In November we participated in the two-day ICGN Global Virtual Summit, and gathered information on the state of governance in Europe, the Americas and Asia, as well as on ESG activities.
- With regard to the response to climate change, we attended monthly information-sharing meetings hosted by the AIGCC, of which we became a member in May 2020.
- At the ACGA, of which we became a member in May 2020, we participated in quarterly online meetings, and also pursued engagement with individual (financial) companies in South Korea.
- We worked with US-based CalPERS on collaborative engagement for PRI in relation to climate change, and with US-based CalSTRS on collaborative engagement for PRI in relation to COVID-19.
- In terms of engagement aimed at Japanese companies, we implemented dialogues on multiple occasions with European asset owners.
- We worked with Achmea Investment Management and Actiam, based in the Netherlands, on individual dialogues for the PRI's Plastic Investor Working Group.

2

Top-down approach for selection of topics and target companies

There is a growing need to incorporate universal principles such as environment, society, labor and anti-corruption into the long-term strategies of companies, in order to enhance corporate sustainability. As such, we take a top-down approach to addressing ESG issues, drawing on an external perspective through passive engagement.

More specifically, we provide support for ensuring corporate sustainability through a process that entails narrowing down topics using a top-down approach which involves back-casting from a desirable future scenario as envisioned by the SDGs, the Global Compact, and the Paris Agreement.



We are formulating our engagement policy based on the above.

In 2020 we began engagements related to management of human capital during the coronavirus crisis, in addition to existing initiatives that include climate change disclosure, Climate Action 100+, supply chain risk management centered on palm oil and food, the marine plastic issue, risk engagement, enhanced corporate governance, prevention of corruption, forced labor, non-financial information disclosure and diversity.

The next page 36 contains a list of respective approaches we have used for individual issues pertaining to ESG+D.

Issues determined

Global issues (Top-down approach)

E (Environmental)

Climate change: Information disclosure on risks and opportunities in line with the TCFD
 For high-risk industries such as automotive, steel, chemicals, and electric power, we are requesting information disclosure in line with the TCFD Guidelines and climate change information disclosure guidance (investor expectations)

Participation in Climate Action 100+
 Engaged in five-year activity to support corporate initiatives for addressing climate change by PRI and a global coalition of investors*.
 *Consists of IIGCC (Europe), INCR (North America), IGCC (Australia & NZ) and AIGCC (Asia). This has involved persuading 100 major companies worldwide (including 10 Japanese companies) to make commitments with respect to risks relating to climate change (The Paris Agreement), and to establish frameworks and disclose information.

CDP Non-Disclosure Campaign
 Engagements requesting disclosure of environmental information in response to CDP disclosure requests

CDP Science-Based Targets Campaign
 Engagements requesting a response to the Science-Based Targets initiative (SBTi)

Marine plastic issue Plastic Investor Working Group
 Engaged with food & beverage manufacturers and retailers, which have a large impact on the marine plastic issue



S (Social)

Sustainable palm oil procurement
 Procurement and policies concerning certified palm oils
 • Collaborative engagement on palm-oil-related companies to encourage ESG risk disclosure and management improvements.
 • The IWG also engaged with the ASEAN regional banks, which are the significant lender to the palm-oil-related companies.

Deforestation risks and human rights issues (Investor Initiative on Sustainable Forests, IISF)
 • PRI – Ceres led Investor Working Group (IWG) to eliminate deforestation and address other ESG issues related to soft commodity (beef, soy, and timber) production such as poor working conditions and land rights.
 • Declared endorsement of “Investor Statement on Deforestation and Forest Fires in the Amazon,” which requested companies to urgently redouble their efforts and demonstrate clear commitment to eliminate deforestation within their operations and supply chains.

Global investor engagement on meat sourcing
 Engagements conducted under the joint guidance of FAIRR and Ceres, requesting six major restaurant and fast food companies to take steps to mitigate risks associated with climate change and water in relation to livestock product supply chains.



Apparel & Footwear Engagement using the KnowTheChain Benchmarks
 Investor Working Group encouraged the 43 target companies that have been assessed by KnowTheChain, to sign the “AAFA^(Note 1)/FLA Apparel & Footwear Industry Commitment to Responsible Recruitment” to improve efforts to address forced labor risks in the supply chain.

Sustainable protein supply chains
 Promotion of corporate information disclosure in relation to a shift to plant and other protein products as substitutes for livestock protein products.

PRI Pandemic Resilient 50 Working group for matters related to management of human capital during the coronavirus outbreak
 Collaborative engagement targeting 50 global companies
 Business Continuity Planning (BCP): collaborative engagements putting the focus on the way employees, suppliers and communities are dealt with, on employee health and welfare, and on compatibility with long-term value creation covering the resilience of the company



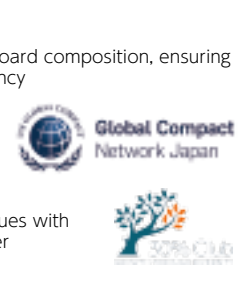
Local issues (Bottom-up approach)

G (Governance)

Enhancement of corporate governance
 Continue engagements aimed at:
 effective monitoring of corporate management by the board, ensuring high independence of board composition, ensuring equal rights among all shareholders, including minority shareholders, and disclosure transparency

Promotion of anti-corruption measures
 Promoting actions centered on key industries (construction, trading company and finance) and global corporations, particularly involving use of the Anti-Bribery Assessment Tool released by GCNJ.

30% Club Japan/UK Investor Group (Board diversity)
 Group which consists of asset owners and asset managers. Aiming to hold constructive dialogues with investee companies’ boards to collaborate with them on effective pathways to increase gender diversity and equality at all levels of the organization.



D (Disclosure)

Enhancement of disclosure of non-financial information [Undisclosed entity]
 Promoting awareness as to the importance of non-financial information, approaches with respect to ESG, and the importance of dialogue.

Integrated reporting
 Urging companies to provide clear and concise information disclosure and supporting them in such efforts
 Declared endorsement of statement of collaboration of the International Integrated Reporting Council (IIRC)

Enhancement of disclosure of non-financial information [Leading company]
 Encouraging an awareness of the “materiality” demanded by investors among companies and adding efficacy to initiatives. Aiming to enhance the long-term corporate value of Japanese companies by encouraging enhanced transparency and dialogue by promoting disclosure.



(Note 1) AAFA: American Apparel & Footwear Association

3

+ Collaboration: Effectiveness and efficiency of engagement activities

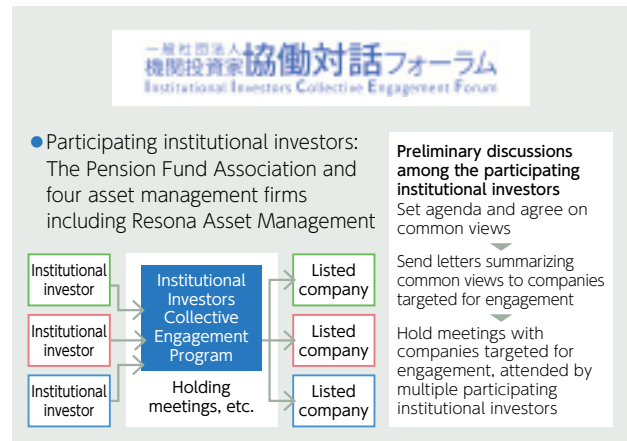
The Responsible Investment Division mainly takes a direct engagement approach and draws on multiple paths of engagement (collaborative engagement and index engagement), thereby making stewardship activities more effective and efficient.

Collaborative engagement — For companies in Japan

Since October 2017 we have been taking part in the Institutional Investors Collective Engagement Program organized by the Institutional Investors Collective Engagement Forum (IICEF). IICEF is a general incorporated association (*jippan shadan hojin*) in Japan established to provide support that facilitates constructive and purposeful dialogue with companies that institutional investors engage with collectively (collaborative engagements) by helping to ensure that such investors carry out their stewardship activities appropriately.

Collaborative engagement activities carried out by the Institutional Investors Collective Engagement Program do not aim to pursue short-term shareholder profits, but rather aim for long-term corporate value expansion with sustainable growth. Having set the engagement agenda for the current fiscal year, letters are sent to targeted companies, and we arrange meetings to talk directly with executive officers and general managers responsible for the divisions in question.

■ Institutional Investors Collective Engagement Forum



■ Engagement agenda of the Institutional Investors Collective Engagement Program

| Governance | Topics | Objectives |
|--|--|--|
| Materiality/ Business model | Materiality identification and disclosure regarding business model sustainability | Encouraging awareness and improving initiatives and disclosure for the materiality demanded by investors |
| Handling misconduct | Information disclosure and collaborative engagement with outside directors at companies committing misconduct | Information disclosure at companies committing misconduct and supporting corporate culture and governance reforms by outside directors |
| Shareholders meeting (high ratio of opposing votes) | Causal analysis and taking action regarding general shareholder meeting proposals that incur a considerable number of opposing votes | Causal analysis and issue awareness for agenda items to elect members of top management with high opposing vote ratios |
| Anti-takeover measures | Disclosing the need for takeover defense measures in light of risks of declining capital market valuations | Awareness of management issues through the evaluation of the need to continue anti-takeover measures |
| Cross-shareholding | Collaborative engagement with companies engaged in cross-shareholding | Encouraging clear disclosure of the objectives and policies of cross-shareholding and improving the governance associated with that response |
| Listed parent companies and subsidiaries | Collaborative engagement on the governance systems of companies with listed parent companies and subsidiaries | Encouraging the maintenance of governance, information disclosure, and enhanced accountability for companies with listed parent companies and subsidiaries |

Participation in policymaking, etc.

We serve as the joint chair and steering committee member of the Asset Management/Securities/Investment Banking Working Group in the Ministry of Environment's Principles for Financial Action for the 21st Century, as well as a member of METI's "Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value."

- Member of the Impact Investment Study Group jointly hosted by the Financial Services Agency / GSG-NAB Japan.
- Member of the Ministry of Agriculture, Forestry and Fisheries' "Investigative Committee for the Practice and Visualization of Decarbonization in the Food Supply Chain."
- Member of the Research Institute For Advancement Of Living Standards' "Research Committee Investigating Information Disclosure For 'Better Companies' And The Promotion Of Principles For Responsible Investment From The Viewpoint Of Working People."

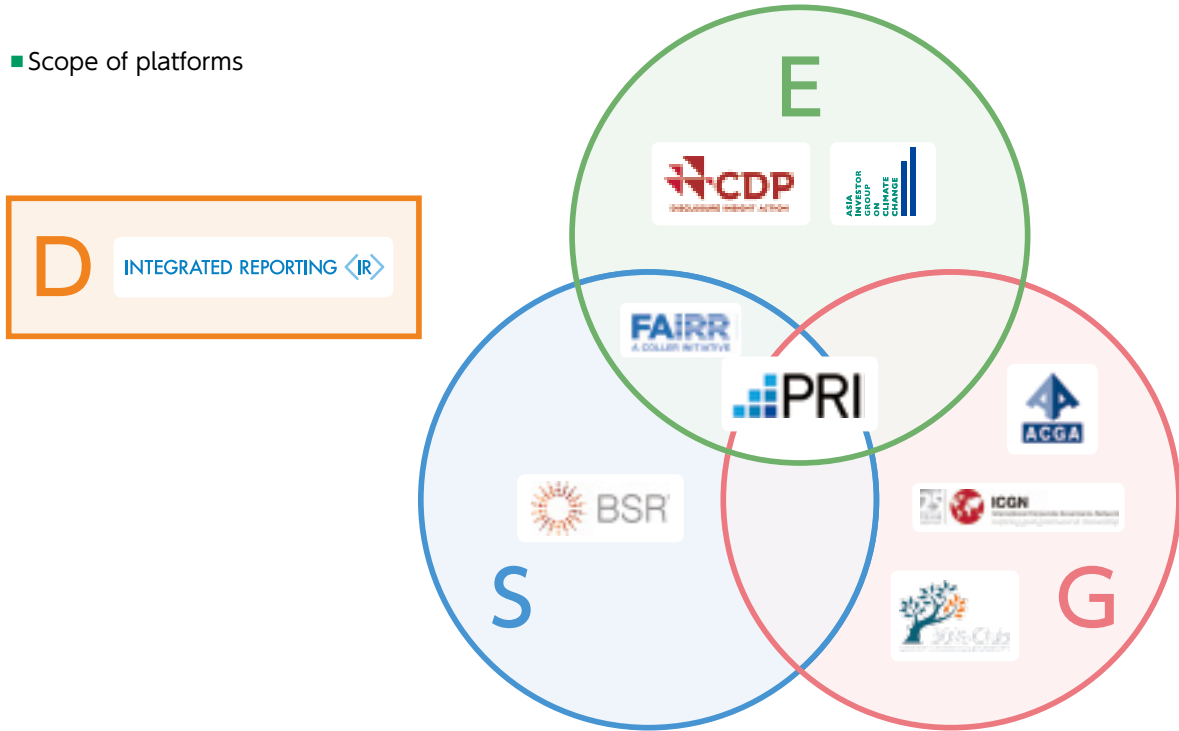
Index engagement

Through our investment, we persuade companies to more fully disclose ESG-related information by undertaking passive investment that uses MSCI's governance-quality and ESG indexes as benchmarks.

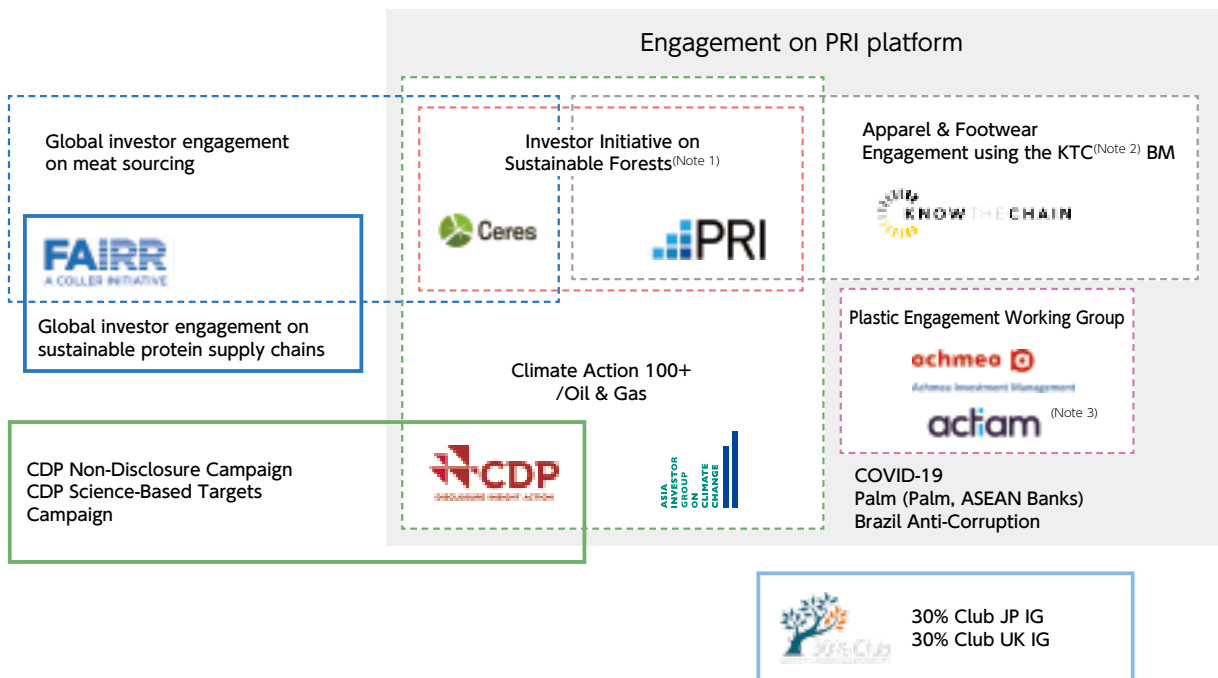
Collaborative engagement — For companies around the world

Based on the network it has cultivated as a pioneer in this kind of responsible investment in FY2020, Resona Asset Management continued to utilize the PRI and other platforms to participate in collaborative engagements for the global companies.

■ Scope of platforms



■ Collaborative engagement we are committed to



(Note 1) IISF: Investor Initiative on Sustainable Forests

(Note 2) KTC: KnowTheChain

(Note 3) Achmea IM, Actiam: Asset management companies in the Netherlands that are signatories to the PRI, and which are involved in the coordination of the plastic engagement group.

■ Global Platform

| Platform | Description | Date Joined |
|--|--|-------------|
| PRI: Principles for Responsible Investment | Established in 2005, a UN-supported network of investors, works to promote sustainable investment through the incorporation of environmental, social and governance factors into investment decision-making. | Mar. 2008 |
| CDP | A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over the past 20 years CDP has created a system that has resulted in unparalleled engagement on environmental issues worldwide. | Apr. 2017 |
| IIRC: International Integrated Reporting Council | A global coalition that provides an investors statement of support for integrated reporting as a route to better understanding of performance | June 2018 |
| BSR: Business for Social Responsibility | BSR™ is a global nonprofit organization that works with its network of more than 250 member companies and other partners to build a just and sustainable world. BSR™ develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. | Nov. 2019 |
| 30% Club UK Investor Group | Established in 2011. Its purpose is to: co-ordinate the investment community's approach to diversity, in particular to explain the investment case for more diverse boards and senior management teams; exercise ownership rights, including voting and engagement, to effect change on company boards and within senior management teams; encourage all investors to engage on the issue of diversity with chairs of boards and senior management teams. | Dec. 2019 |
| FAIRR: Farm Animal Investment Risk & Return | Established in 2015, the initiative is a collaborative investor network that raises awareness of the environmental, social and governance (ESG) risks and opportunities brought about by intensive livestock production. | Jan. 2020 |
| ICGN: International Corporate Governance Network | Established in 1995 as an investor-led organization, the ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. | Apr. 2020 |
| AIGCC: The Asia Investor Group on Climate Change | An initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. | May 2020 |
| ACGA: Asian Corporate Governance Association | An independent, non-profit membership organization dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999 from a belief that corporate governance is fundamental to the long-term development of Asian economies and capital markets. | May 2020 |

■ Collaborative Engagements and Working Groups

| Platform | Project Name | Global Issue | Date Joined |
|-------------|---|--|-------------|
| PRI | Climate Action 100+ | Climate Change | May 2018 |
| PRI | Climate change transition for oil and gas | Climate Change | Feb. 2018 |
| CDP | CDP Non-Disclosure Campaign | Climate Change/Disclosure | Apr. 2020 |
| CDP | CDP SBT Campaign | Climate Change/Disclosure | Sept. 2020 |
| PRI-Ceres | IISF: Investor Initiative for Sustainable Forests | Environment/Deforestation/Supply Chain | Sept. 2017 |
| PRI | Sustainable Palm & Soy | Environment/Deforestation/Supply Chain | Oct. 2018 |
| PRI | Plastic Engagement Working Group | Supply Chain | Aug. 2020 |
| FAIRR | Global investor engagement on meat sourcing | Sustainable Food Supply Chain/Climate Change | Dec. 2019 |
| FAIRR | Global investor engagement on sustainable protein supply chains | Sustainable Food Supply Chain/Climate Change | Jan. 2020 |
| PRI | COVID-19 Investor Working Group/Pandemic Resilient 50 | COVID-19 Response | Aug. 2020 |
| PRI-ICCR | Apparel & Footwear Engagement using the KTC BM | Human Rights/Labor Practices/Supply Chain | Apr. 2019 |
| 30% Club UK | 30% Club UK Investor Group | Governance/Board Diversity | Dec. 2019 |
| PRI | Brazil Anti-Corruption | Governance/Anti-Corruption | Dec. 2019 |

■ Signed Investor Statement

| Platform | Statement | Global Issue | Support Endorsed |
|-----------------|---|---|------------------|
| PRI | PRI Just Transition on Climate Change | Climate Change | Nov. 2018 |
| Investor Agenda | Global Investor Statement to Governments on Climate Change | Climate Change | June 2019 |
| PRI/CA100+ | Investor Expectations on Climate Change for Airlines and Aerospace Companies | Climate Change | Dec. 2019 |
| PRI-Ceres | Investor Expectations on Deforestation in Cattle Supply Chains | Environment/Deforestation | Oct. 2017 |
| PRI-Ceres | Investor expectations on deforestation in soybean supply chains | Environment/Deforestation | Feb. 2019 |
| PRI-Ceres | Deforestation & forest fires Amazon | Environment/Deforestation | Oct. 2019 |
| FAIRR | Global Investor Statement on Antibiotics Stewardship | Sustainable Food Supply Chain | Oct. 2018 |
| PRI, KTC/ICCR | Investor Statement on Coronavirus Response | COVID-19 Response | May 2020 |
| PRI | UNGP Reporting Framework Investor Initiative | Human Rights/Labor Practices/Supply Chain | Oct. 2016 |
| PRI | INVESTOR EXPECTATIONS ON LABOUR PRACTICES IN AGRICULTURAL SUPPLY CHAINS | Human Rights/Labor Practices/Supply Chain | Feb. 2018 |
| PRI, KTC/ICCR | KnowTheChain Investor Statement Investor Expectation on Addressing Forced labor in Global Supply Chains | Human Rights/Labor Practices/Supply Chain | May 2019 |
| IIRC | A global coalition that provides an investors statement of support for integrated reporting as a route to better understanding of performance | Governance/Disclosure | June 2018 |

1 Engagement plan for FY2020

We aim to achieve sustainable society through actively engaging in both enhancing medium- to long-term corporate value and finding solutions to social challenges.

Dialogue and engagement plans (from July 2020 to June 2021)

Going forward, we will persist in our efforts to conduct engagement for our equity/passive and active investment, and fixed income/active investment, and concurrently will further strengthen cooperation among divisions, aiming to raise the bar. We also plan to keep carrying out collaborative engagement geared to companies in Japan and overseas.

| | |
|--|--|
| <p>Equity/Passive investment</p> | <p>In addition to the dialogue and engagement issues we have been addressing, we plan to conduct engagements to further improve the ratios of independent outside directors and female directors in the board. With respect to our engagements on environmental and social issues, we will continue addressing issues such as the palm oil issues and marine plastic issues, while simultaneously preparing to choose some new topics.</p> |
| <p>Equity/Active investment (Chapter 4)</p> | <p>We will decide on topics pertaining to non-financial factors that effectively help increase long-term corporate value, drawing on sources of added value developed over many years by each of our strategies. We also aim to keep enhancing and maintaining our dialogue with investee companies focused on their management teams, simultaneously improving the quality.</p> |
| <p>Fixed income/Active investment (Chapter 5)</p> | <p>We plan to enhance our dialogue and engagement with respect to medium- to long-term ESG issues in order to keep building awareness of potential risks involving such corporate issuers.</p> |

As for collaborative engagements to Japan and overseas companies, we plan to participate in collaborative engagements by using platforms of PRI and the Institutional Investors (IICEF) Collective Engagement Program.



Responsible Investment Division meeting



Engagement agenda for FY2020

Climate change

- **Climate Action 100+ Net Zero Company Benchmark Rollout**
Letters sent to the investee companies on setting goals in line with the Net Zero Company Benchmark.
- **CDP Non-Disclosure Campaign | Science-Based Targets Campaign**
In March 2020 we have encouraged the companies to disclose comparable environmental information to investors using the CDP platform.
In September 2020 we have committed to the global network of investors engaging with companies around the world to set SBTs.
- As for impact assessment, we will try to further understand the assessment methodology, and to use the assessment in engagement tools.



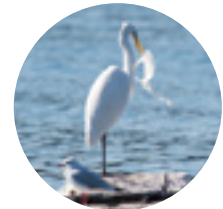
COVID-19

- **Pandemic Resilient 50 (Participation by ten companies, including CalSTRS, Legal & General, Dutch APG, and Achmea)**
In response to the COVID-19 pandemic, CalSTRS and a group of institutional investors formed a collaborative initiative.
We will commit to the Pandemic Resilient 50 which engages companies to understand the impact of those most affected by the pandemic and focuses on Board Accountability, Human Capital Management, and Long-Term Value Creation and Resilience.
- **Investor Statement on Coronavirus Response (ICCR, KnowTheChain)**
We have donated our support to the Investor Statement.
This is a statement which urges the business community to take whatever steps they can, in particular: "Provide paid leave," "Prioritize health and safety," "Maintain employment," "Maintain supplier/customer relationships," and "Financial prudence."



Marine plastic pollution

- In FY2019, we engaged with 20 companies on marine plastic issue with the retailers that were heavy users of polyethylene bags, and beverage manufacturers that produce and sell drinks packaged in PET bottles. We conducted interviews to confirm the status of each company's efforts to reduce the use of plastic, and we actively encouraged information disclosure. In FY2020 we engaged with two chemical companies on chemical recycling. We have also continued our dialogue with the policy makers.
- **Plastic Engagement Working Group, Led by Achmea Investment Management and Actiam**
We will continue our commitment to the Plastic Engagement Working Group.



Sustainable food supply chain

- **Global Investor Engagement on Meat Sourcing, Phase 2**
In 2019/2020 we have committed to participation in collaborative engagements targeting 6 fast food and restaurant brands with the aim of reducing supply chain risk relating to meat and dairy products.
- **Sustainable protein supply chains, Phase 4**
We have committed to participate in collaborative engagements targeting 25 global food manufacturers to encourage diversification of protein sources. In 2021 we plan to continue our commitment to the next phase of the engagement.



Biodiversity Pledge

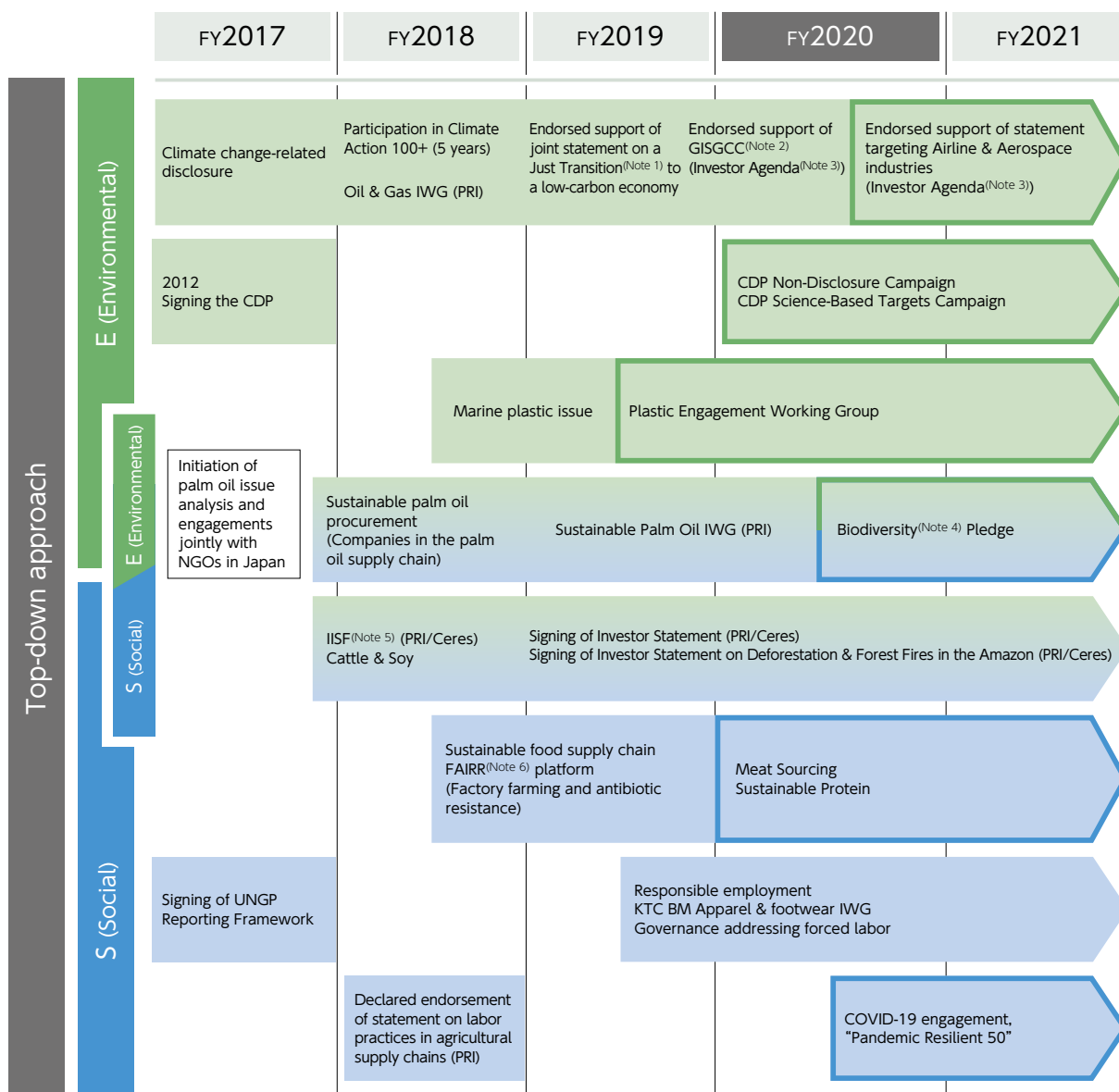
- As a new engagement agenda, we are planning to endorse our support to the "Biodiversity Pledge."



Determining issues and action plans

In FY2020 we will take action that connects internalities and externalities geared to both global and local agendas, with an ongoing focus on external diseconomies.

Whereas we ensure that each of our activities embrace individual topics pertaining to ESGD issues, we also accordingly link each of our agenda objectives with one or more of the other agenda objectives. In addressing the ESGD issues, we will take a comprehensive approach that involves interconnecting elements of the following tables, with the vertical axes representing timelines that provide a framework for initiatives listed along the horizontal axes.



(Note 1) Just Transition: The preamble of the Paris Agreement contains the goal of achieving a Just Transition as one means of helping ensure effectiveness of the Paris Agreement. The joint statement endorsing a Just Transition is intended to facilitate more extensive understanding as to the importance of factoring in employment concerns and accordingly implementing comprehensive measures to address social challenges involving the prospect of unemployment and diminishing working conditions as a result of shifting to a carbon-free society.

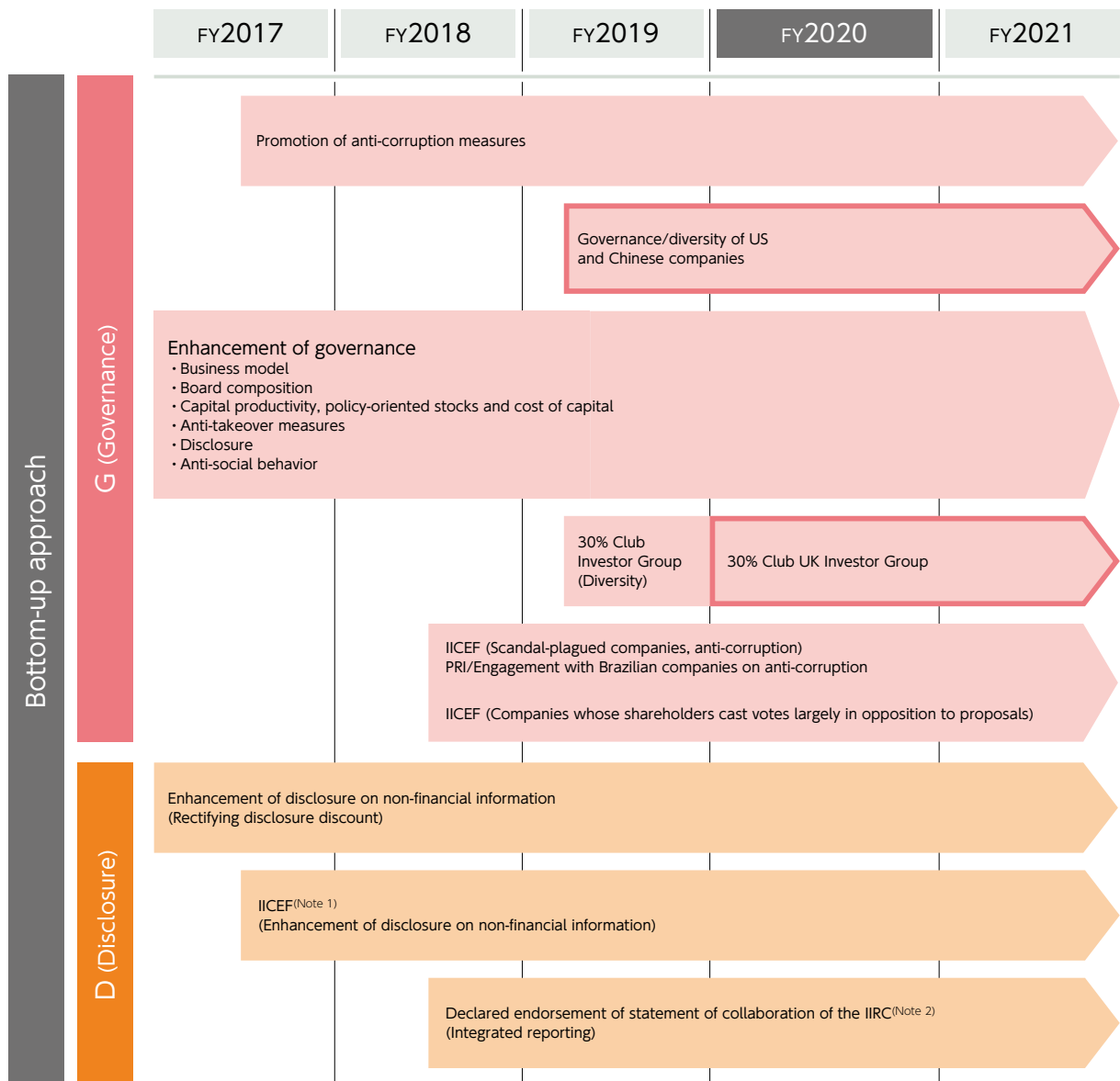
(Note 2) GISGCC: Global Investor Statement to Governments on Climate Change. A joint statement announced before the G20 Osaka Summit in June 2019 that called on government leaders worldwide to set voluntary emission reduction targets (NDCs) to keep climate change to 1.5°C. Participating organizations comprised 477 institutional investors, with combined total of US\$34 trillion in assets under management.

(Note 3) Investor Agenda: An initiative by institutional investors launched in September 2018 to promote carbon reduction. It comprises the United Nations Environment Programme Finance Initiative (UNEP FI), the Principles for Responsible Investment (PRI), the CDP, and the Global Investor Coalition on Climate Change (GICC, made up of four organizations: IIGCC, AIGCC, IGCC, and Ceres).

(Note 4) Biodiversity: Biological diversity

(Note 5) IISF: Investor Initiative on Sustainable Forests. The IWG on deforestation formed by combining the former Cattle-Linked Deforestation IWG with the Soy IWG.

(Note 6) FAIRR: Farm Animal Investment Risk and Return



(Note 1) IICEF: Institutional Investors Collective Engagement Forum
 (Note 2) IIRC: International Integrated Reporting Council

Sustainable palm oil procurement



© WWF Japan

In August 2017, we initiated engagements pertaining to environmental and social issues on procurement of sustainable palm oil.

Palm oil is the most commonly used vegetable oil in the world, particularly as a raw material in numerous food products, detergents and other household items, and cosmetics. However, palm oil underlies many problems in the major producer countries of Malaysia and Indonesia, particularly in terms of deforestation accompanying development of palm plantations, child and forced labor, and conflicts with indigenous peoples of the nations.

Japan also has many companies that handle palm oil-based products and accordingly are involved in the palm oil supply chain.

Meanwhile, in comparison with companies in Europe and the United States, we believe there is still substantial room for improvement among companies in Japan on palm oil related issue.

The Responsible Investment Division provides support to investee companies involved in the palm oil supply chain, with respect to helping them understand and draw up policies pertaining to procurement of “sustainable palm oil.”

Products using palm oil (palm kernel oil)



Instant noodles



Chocolate snacks



Margarine



Ice creams



Frozen foods



Powdered milk



Detergents and cosmetics

August 2016

Launch of the Task Force on Palm Oil Issue

In August 2016, the Responsible Investment Division organized sessions to exchange information in its Task Force on Palm Oil Issue with the aim of spreading awareness of “sustainable palm oil” across Japan. This was done in cooperation with Professor Takeshi Mizuguchi at Takasaki City University of Economics, and representatives of NGOs such as CSR Review Forum-Japan. The 18th meeting of the task force was held in December 2020.

From August 2017 onwards

Meetings with investee companies involved in the palm oil supply chain

Our efforts to encourage use of sustainable palm oil entail visiting investee companies that are involved in the palm oil supply chain, thereby leveraging knowledge gained in the Task Force on Palm Oil Issue. Specifically, we created a list of investee companies that were associated with the palm oil supply chain. Between August 2017 and June 2020, we visited and held meetings with a total of 54 organizations, consisting of 18 companies in the retail, restaurant and service industries, 8 toiletry manufacturers, 18 food manufacturers, 5 oil and chemical companies, and 5 general trading companies. Initiatives taken during the meetings have included providing explanations on environmental and human rights risks inherent in the palm oil supply chain, confirming progress made with initiatives involving sustainable palm oil, and profiling examples of companies that are carrying out progressive initiatives. Moreover, we have urged people to join the Roundtable on Sustainable Palm Oil (RSPO), recommended that companies use sustainable palm oil, and encouraged the companies to disclose their targets to address palm oil issue and their track records.

From January 2018 onwards

Meetings with overseas oil palm plantation operators

In a follow-up to January 2018, in March 2019 our analysts paid visits to engage with seven major palm plantation operators based in Malaysia and Singapore. In addition to checking initiatives related to achieving compliance with NDPE rules, we shared information aimed at resolving issues such as traceability down to the level of small independent plantation operators.

From October 2018 onwards

Began engaging with ASEAN regional banks

In October 2018 the engagement working group (WG) initiated contact or sent letters to nine ASEAN regional banks that extend funding for palm oil operators in relation to ESG issues at the companies to which they provide finance. With four of these banks the WG conducted engagement activities aimed at improving frameworks for management and information disclosure of ESG risks in relation to companies in the palm oil supply chain.

From November 2018 onwards

Attendance to the annual RSPO meeting

Following our attendance at the RSPO’s Annual Roundtable Conference held at Kota Kinabalu in Malaysia in November 2018, we participated in the Annual Roundtable Conference held at Bangkok in Thailand in November 2019, and exchanged information with those involved in the palm oil industry.

From November 2018 onwards

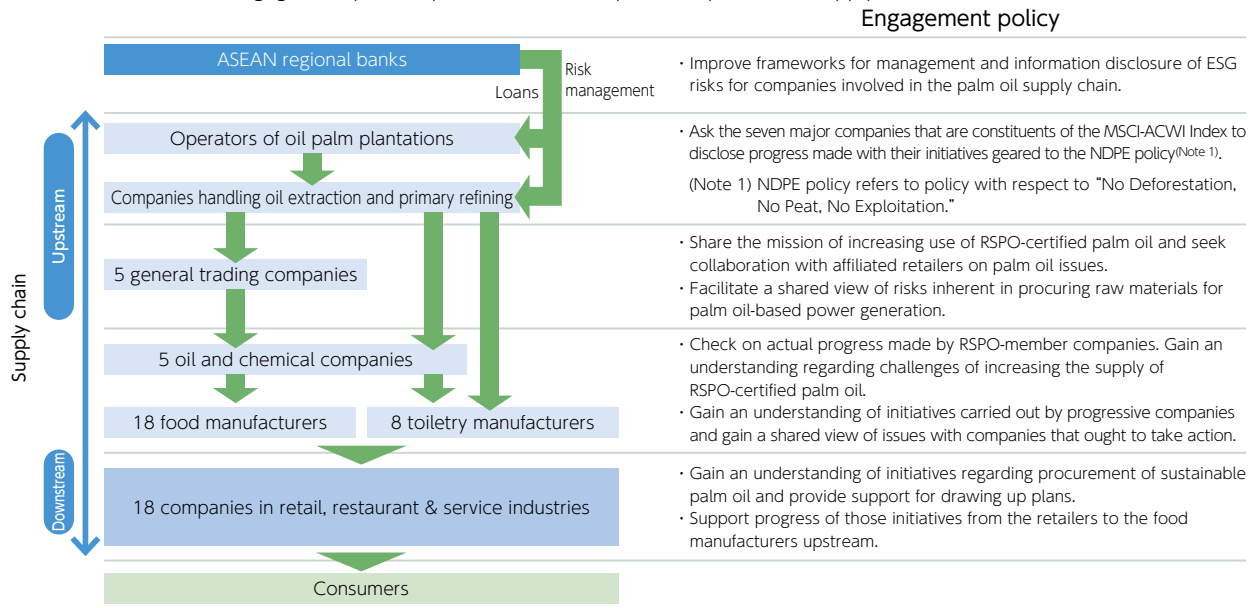
Participation in the drawing up of engagement and remedy guidelines for the supply chain

In September 2019, we collaborated with external organizations such as Global Compact Network Japan (GCNJ), and Business and Human Rights Lawyers Network Japan (BHR Lawyers) in relation to grievance mechanisms in cases where companies have difficulty complying by themselves. The result was the institution of “Engagement and Remedy Guidelines for Promotion of Responsible Business Conduct and Supply Chains^(Note 1),” whereby information is collected on the state of the workforce at targeted companies with the aim of achieving rapid improvements. These guidelines began to be applied in December 2019. Support is provided to companies via the engagement and remedy guidelines through such means as setting up dedicated points of contact to receive complaints from workers at plantations and oil extractors.

(Note 1) Certified as a Tokyo 2020 Support Programme (Sustainability) by the Tokyo Organising Committee of the Olympic and Paralympic Games

Supply chain and engagement policy

- Numerous companies operate across the entire palm oil supply chain from upstream to downstream.
- We have established engagement policies pertinent to the respective layers of the supply chain.



Engagement process

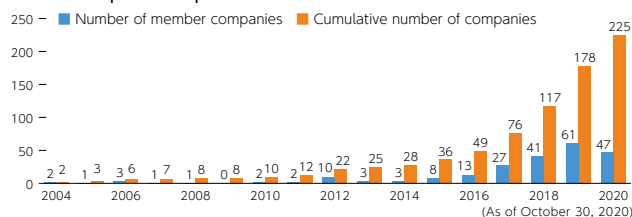
CSR-based approaches to procurement are becoming more commonplace as a means of addressing risks with respect to challenges such as environmental, labor and human rights issues throughout total supply chain. First, we have started conducting engagement that involves having companies confirm amounts of palm oil and raw materials derived from palm oil used in products they handle, upon having gained their understanding that palm oil gives rise to supply chain risks with respect to deforestation, child labor and forced labor. Subsequently, we recommend that they use RSPO-certified palm oils, have them disclose their policies on sustainable procurement and encourage them to ensure traceability. Ultimately, we aim to get companies to disclose their NDPE policy objectives.

The following diagram shows the process of engagement with the 54 companies targeted, and progress made.



During the 12-month period between July 2019 and June 2020, five of the 54 companies with which we engaged joined the RSPO.

Number of Japanese corporate RSPO members



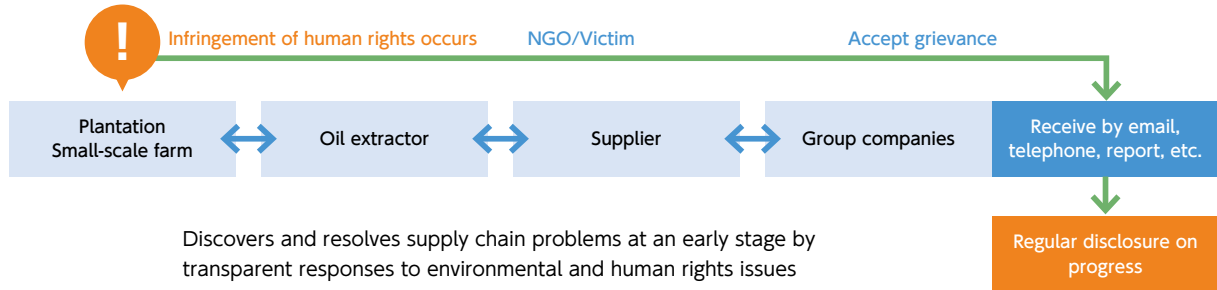
[What is the RSPO?]

Seven affiliated organizations including the World Wildlife Fund (WWF) spearheaded efforts to establish the Roundtable on Sustainable Palm Oil (RSPO) in 2004 in response to a mounting chorus worldwide of voices calling for use of sustainable palm oil out of consideration for environmental impact. It aims to promote production and use of sustainable palm oil by drawing up certification standards trusted worldwide and enlisting stakeholder participation. The RSPO is a nonprofit organization whose operations are underpinned by the support of affiliated stakeholders from seven sectors of the palm oil industry: oil palm producers, palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental NGOs, and social or developmental NGOs.



Grievance mechanism

What is the grievance mechanism (mechanism for processing complaints related to human rights infringements)?

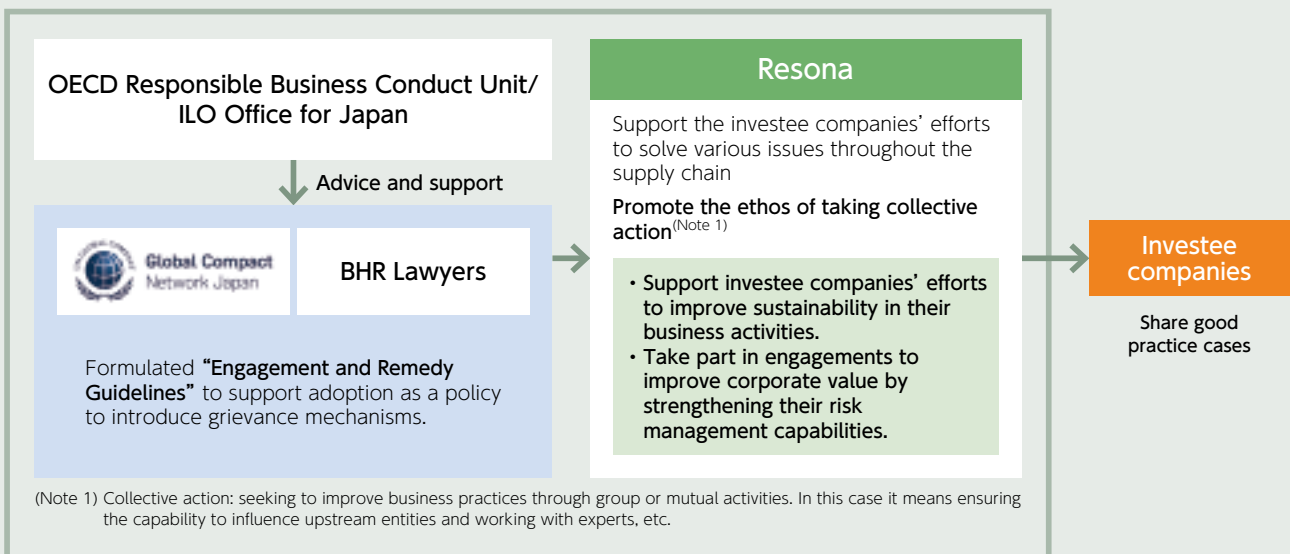


Why are guidelines and collective action necessary for the mechanism?



While we were conducting engagements on supply chain risk, we became aware that there were limits to the grievance mechanisms at the respective individual-company level.

In response to this, we have enacted the “Engagement and Remedy Guidelines for Promotion of Responsible Business Conduct and Supply Chains” (“Engagement and Remedy Guidelines”). We owe this accomplishment to the advice and support from the OECD Responsible Business Conduct Unit and the ILO Office for Japan, and the cooperation from external organizations such as GCNJ and BHR Lawyers.



(Note 1) Collective action: seeking to improve business practices through group or mutual activities. In this case it means ensuring the capability to influence upstream entities and working with experts, etc.

National Action Plan (NAP) on Business and Human Rights

Marine plastic issue

Engagement on marine plastic issue

We engaged with 15 companies on marine plastic issue. The majority of those companies were retailers that are heavy users of polyethylene bags, and beverage manufacturers that produce and sell drinks packaged in PET bottles. We conducted interviews to confirm the status of each company’s efforts to reduce the use of plastic, and we actively encouraged information disclosure.

Engagement cases (July 2019 to June 2020)

- 7**
retailers and restaurant companies

Confirmed the status on company’s efforts to reduce customer use of plastic bags, to implement the use of biomass materials as an alternative, and to reduce usage of plastic straws and food containers.
- 5**
food manufacturers

Confirmed the future policy on the use of PET materials in product containers.
- 3**
toiletry manufacturers

Confirmed the status on reducing the use of plastic containers.

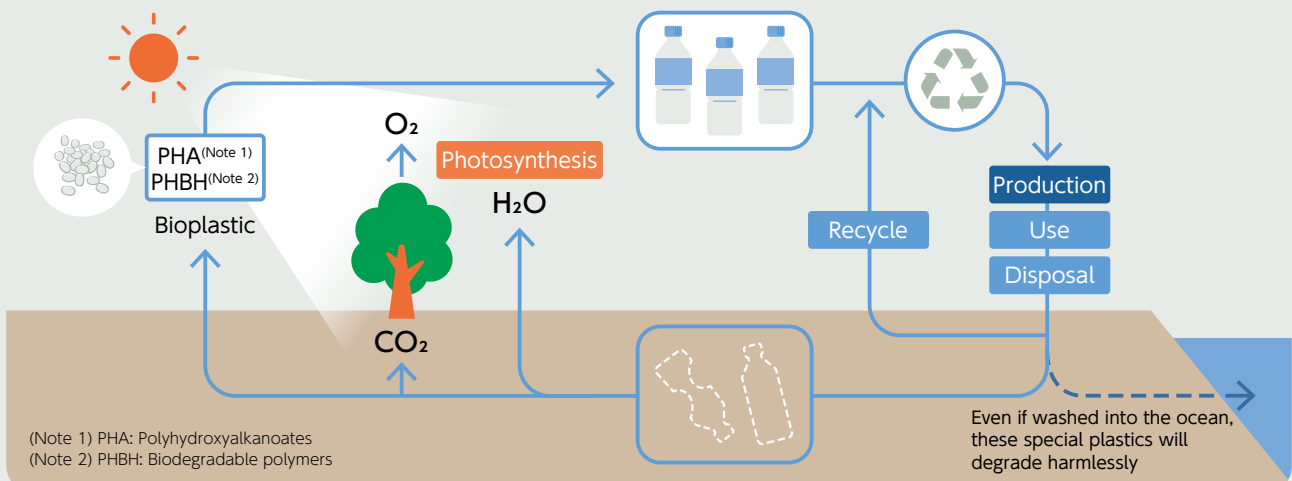


Participation in collaborative engagement

We participate in the Plastic Investor Working Group led by the PRI signatories. We are recommending a transition to a circular plastics economy (reduce, replace, reuse), and encourage the 12 target companies to reduce the environmental burden (pollution) caused by production and use of plastics.

Dialogue with policymakers

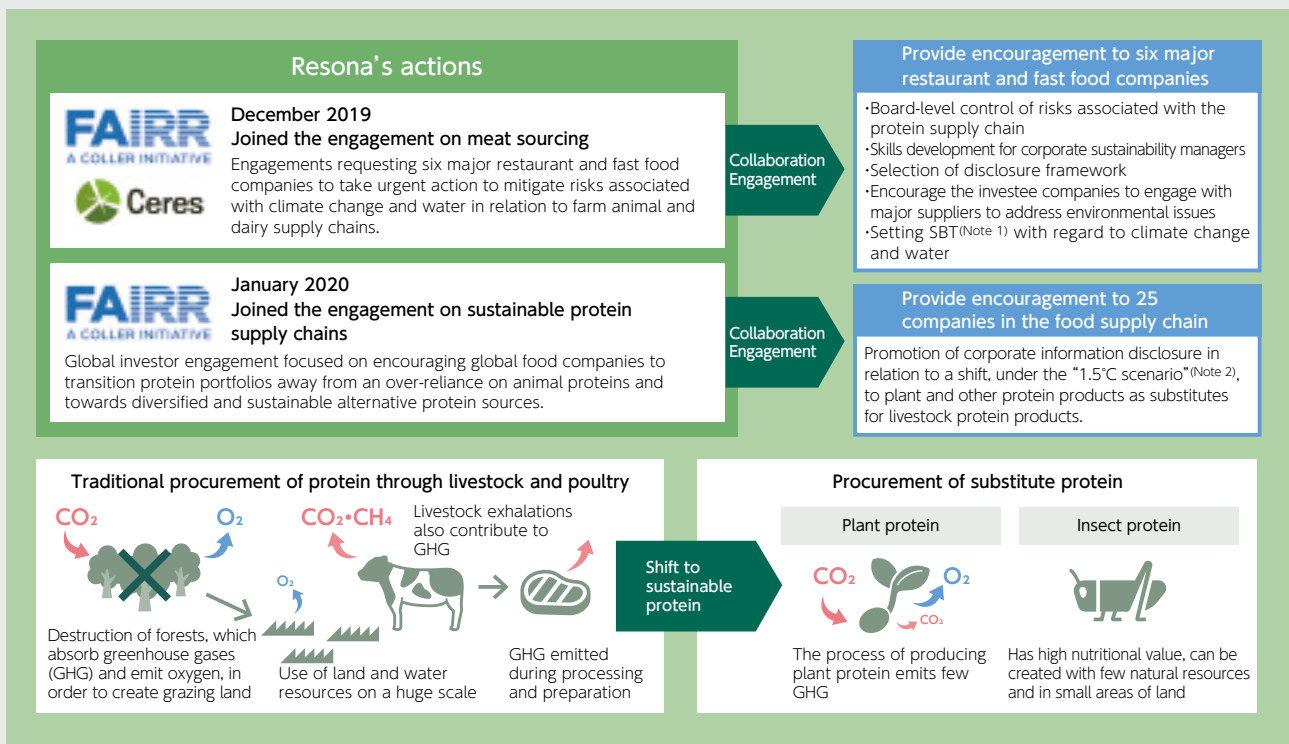
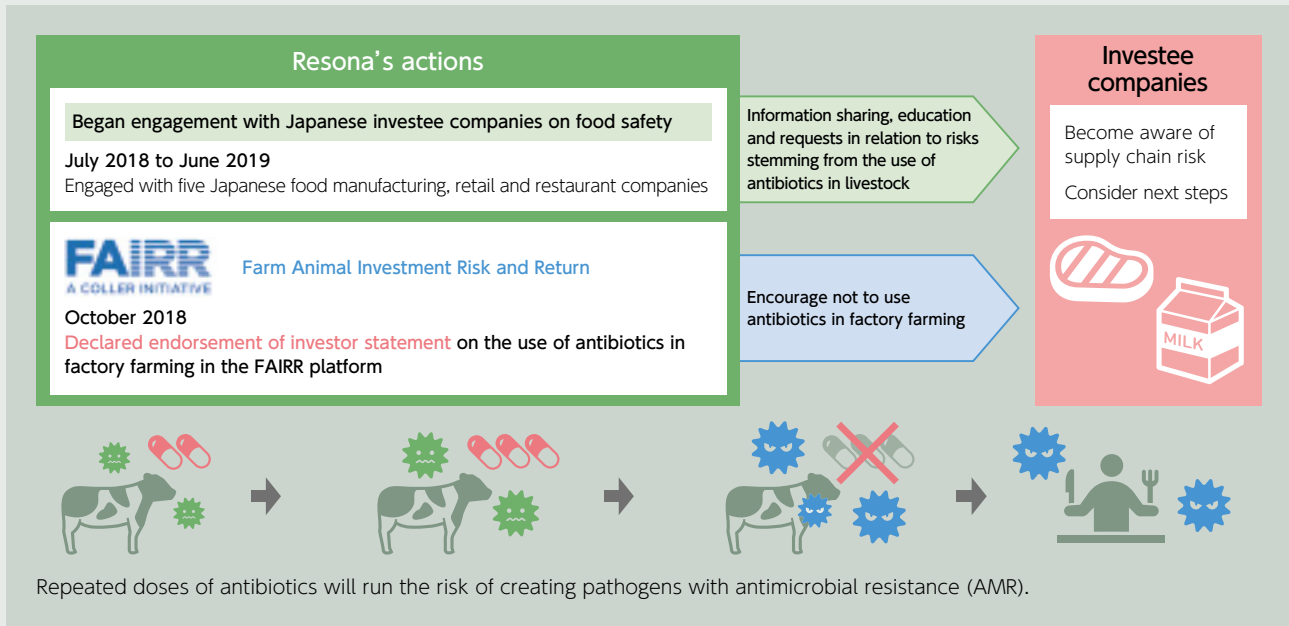
We participate as a member of the Circular Economy and Resource Circulation for Plastics Finance Study Group (started in May 2020) hosted by the Ministry of Economy, Trade and Industry and the Ministry of the Environment. In addition, at the third joint meeting between the Ministry of Environment Subcommittee on Plastic Resource Circulation of the Working Group for a Circular Economy of the Central Environment Council, and the METI Working Group on Resource Circulation Strategy for Plastics under the Waste and Recycling Subcommittee of the Committee on Industrial Science and Technology Policy and Environment of the Industrial Structure Council, held in June 2020, a number of initiatives by investors for issues caused by plastics were announced.



Sustainable food supply chain

Having noted the rising awareness on a global basis of risks arising from the use of antibiotics in livestock, leading to drug residues and the emergence of bacterial strains that are highly resistant to antibiotics, we have begun to take action.

In 2020/2021 we continued to use the FAIRR platform to participate in engagements aimed at mitigating livestock product supply chain risks and associated climate change and water safety issues.



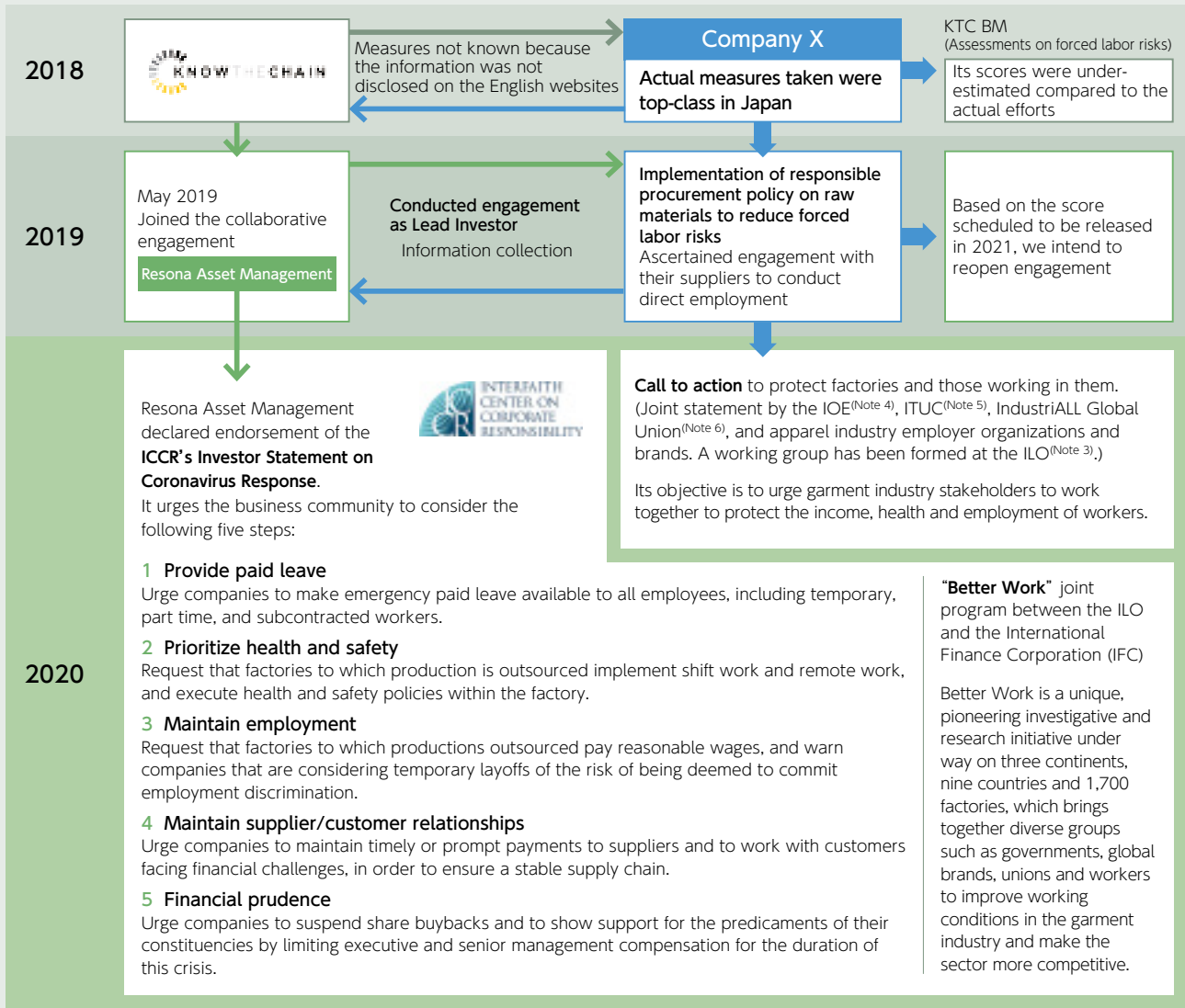
(Note 1) Science Based Targets: Targets, with a 5-15 year horizon, set by corporations with the aim of reducing GHG emissions to a level congruent with that required by the Paris Agreement (which seeks to control the rise in global temperatures from pre-industrial levels to well below 2°C, and preferably to 1.5°C).

(Note 2) A scenario developed by the Intergovernmental Panel on Climate Change (IPCC) that cites and accepts the pursuit of efforts to limit the temperature increase to 1.5°C under the Paris Agreement, in which the increase in average temperatures is limited to 1.5°C above pre-industrial levels.

Collaborative engagement on forced labor



We have participated in “Apparel & Footwear Engagement using the KnowTheChain^(Note 1) Benchmarks (KTC BM)” as the Lead Investor. This is a collaborative engagement involving a tie-up between KTC, PRI, and ICCR^(Note 2), and is aimed at labor practices and human rights at the apparel and footwear companies that are assessed by KTC BM.



(Note 1) KnowTheChain: A collaborative partnership between the four organizations of Business & Human Rights Resource Centre, Humanity United, Sustainalytics, and Verité. Each organization has expertise in addressing forced labor risks within the companies’ global supply chains.

(Note 2) ICCR: The Interfaith Center on Corporate Responsibility has 300 management institutions as members, which have combined assets under management of approximately ¥40 trillion. The ICCR is an organization consisting of institutional investors who manage pension funds associated with various faiths, and has a track record of engagement in addressing the forced labor risks. Its main member organizations include signatories of the PRI, as well as groups associated with the Jewish, Roman Catholic, and Protestant faiths.

(Note 3) ILO: The International Labour Organization. A UN agency whose goals are to improve working conditions and standards of living.

(Note 4) IOE: The International Organisation of Employers. The Japan Business Federation is also a member.

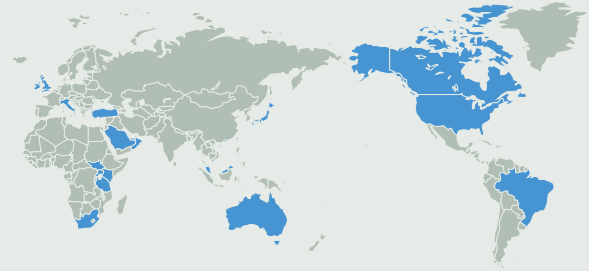
(Note 5) ITUC: The International Trade Union Confederation, which is the largest organization of its kind. Japanese Trade Union Confederation (JTUC-Rengo) is also a member.

(Note 6) IndustriALL Global Union: A global union federation headquartered in Geneva, Switzerland.

Board diversity

30% Club Japan (Established in May 2019)

The 30% Club was established in the United Kingdom in 2010, and is a global campaign whose objective is to increase the proportion of female directors. It has expanded into many regions and countries, including Japan, and has made a significant contribution to raising the percentage of female directors.

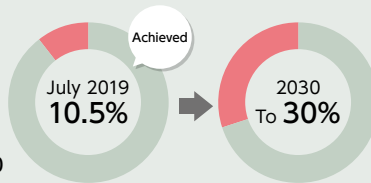


* Countries and regions in blue denote areas in which the 30% Club is active



Objectives

The 30% Club Japan aims to achieve **10%** representation of women on the boards of TOPIX100 companies by 2020, and **30%** representation by 2030



For the sake of greater transparency, the IG reported and shared with investors the state of gender diversity at board meetings, and shared the progress towards achieving the goals.



● Participation in Japan Investor Group (IG) since June 2019

Major activities during 2020

| | |
|---|--|
| Best Practice Sharing | The 30% Club Japan IG held sessions for sharing best practices for engagement activities, information disclosure by companies, and the director selection process, by inviting presenters with expertise in engagement and governance. |
| Released an annual report, with the Best Practice Sub-Group taking lead | The 30% Club Japan IG compiled engagement case studies and the contents of progress reports, and released an annual report. |
| Information sharing with 30% Club UK IG | Shared information with a UK IG for the annual report. |

Progress of Resona Asset Management's engagements

Engaged with 15 companies in FY2020, referencing the toolkit developed by the 30% Club UK.

| Board of directors awareness | Setting of board of directors targets | Commitment to appointing individuals to director/management | Department with responsibility for appointing individuals to director/management | Resona Global Governance Principles ↓ "Diversity is desirable for efficient oversight of management" |
|---|---------------------------------------|---|--|--|
| 15/15 (Yes: 15 of 15 companies) | 1/15 | 3/15 | 4/15 | |
| Use of external consultants in relation to hiring | Appointment of women on the board | Disclosure of pay gap | Educational program | |
| 2/15 | 7/15 | 0/15 | 3/15 | |

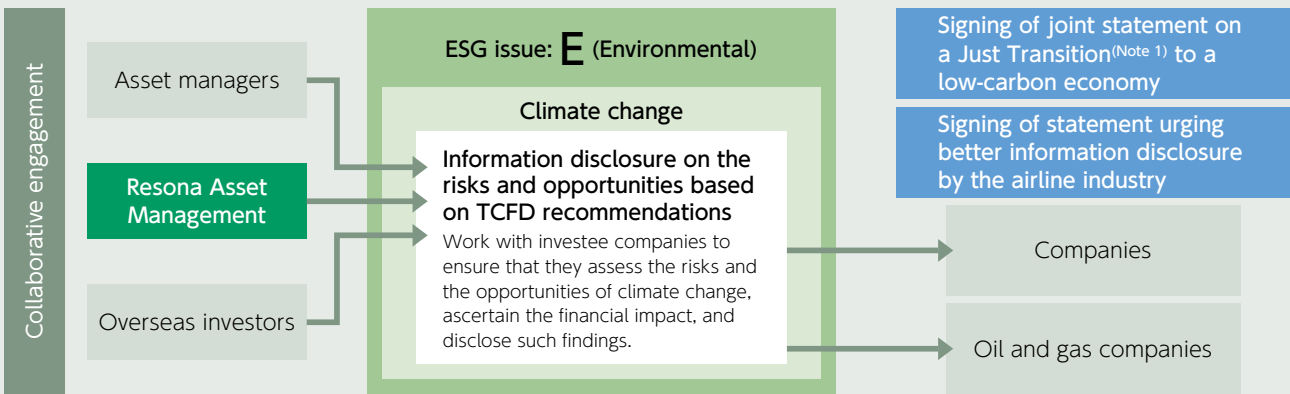
● Participation in UK IG since December 2019



Engagement in climate change issues

Climate Action 100+ is a five-year action plan set up by PRI and a global coalition of institutional investors to support corporate climate change initiatives on a global scale. The targets are industries producing high volumes of GHG emissions and companies with large market caps (161 major global companies and ten Japanese companies). Resona Asset Management has engaged with the target companies in Japan.

| | | |
|------------------------------|-------------------|---|
| Goals of Climate Action 100+ | Governance | Improving governance in climate change policies of the investee companies |
| | Action | Reducing CO ₂ emissions throughout the entire value chain |
| | Disclosure | Enhancing climate-related financial disclosures |



Progress of engagements

| | Governance and strategy | Medium-term target | Long-term target | Scenario analysis | TCFD reporting |
|-----------|-------------------------|---|---|-------------------|----------------|
| Company A | Yes | Reduce CO ₂ emissions from vehicles by 2022 Reduce CO ₂ emissions from new vehicles by 40% (relative to FY2000: Japan, the United States, Europe, China) | Achieve a 90% reduction in CO ₂ emissions from new vehicles by 2050 (relative to FY2000) | Yes | Yes |
| Company B | Yes | Achieve two-thirds electrification by 2030 | Achieve net zero GHG emissions by 2050 | Yes | Yes |

Climate Action 100+ engagements/Sent letter to companies on Net Zero Company Benchmark

1. Asked companies to work towards providing disclosures consistent with the new Climate Action 100+ Net Zero Benchmark.
2. Asked companies to outline strategies that go beyond current NDCs, and/or implement appropriate capital investment decisions aligned to net-zero emissions, with a view to set (or has set) an ambition to achieve net zero emissions by 2050 or sooner across all material GHG emissions, and establish medium-term targets or goals consistent with a global reduction in emissions of 45 percent by 2030 relative to 2010 levels.
3. Asked companies to work toward the development and implementation of net zero transition action plans for their sector or value chain overall.

(Note 1) Just Transition: The preamble of the Paris Agreement contains the goal of achieving a Just Transition as one means of helping ensure effectiveness of the Paris Agreement. The joint statement endorsing a Just Transition is intended to facilitate more extensive understanding as to the importance of factoring in employment concerns and accordingly implementing comprehensive measures to address social challenges involving the prospect of unemployment and diminishing working conditions as a result of shifting to a carbon-free society.

Coronavirus response

Governance after the pandemic

Resona Asset Management's commitment on investor actions and investor working groups

| Date committed | Platform | Investor statement/ Working group | Description |
|----------------|----------|---|---|
| March 2020 | PRI | How responsible investors should respond to the COVID-19 coronavirus crisis | <p>Immediate investor actions</p> <p>Action 1: Engage companies that are failing in their crisis management</p> <p>Action 2: Engage where other harm is being hidden behind, or worsened by, the crisis</p> <p>Action 3: Re-prioritise engagement on other topics</p> <p>Action 4: Publicly support an economy-wide response</p> <p>Action 5: Participate in virtual AGMs</p> <p>Action 6: Be receptive to requests for financial support</p> <p>Action 7: Maintain a long-term focus in investment decision making</p> |
| April 2020 | ICGN | Governance Priorities During the COVID-19 Pandemic | The ICGN Statement of Shared Governance Responsibilities which broadly emphasizes the need for companies. |
| May 2020 | PRI-ICCR | Investor Statement on Coronavirus Response | A statement which urges the business community to take whatever steps they can, in particular: "Provide paid leave," "Prioritize health and safety," "Maintain employment," "Maintain supplier/customer relationships," and "Financial prudence." |
| September 2020 | PRI | Pandemic Resilient 50 Working Group | In response to the COVID-19 pandemic, CalSTRS and a group of institutional investors formed a collaborative initiative. The group of 10 investors represents \$3.7 trillion in assets under management. The Pandemic Resilient 50 will engage companies to understand the impact of those most affected by the pandemic, and focuses on Board Accountability, Human Capital Management, and Long-Term Value Creation and Resilience. |

Example of questions raised during dialogue with companies

- What actions can you take to help ensure the sustainability of society?
- Appropriate disclosure of risk assumptions is being requested. What kind of disclosure are you considering for the securities report and integrated report?
- What steps are you taking to construct a human resources management system that takes into account work style reforms such as remote work and flex work, and that places the emphasis on results rather than time worked?
- During the pandemic crisis, what kind of initiatives have you been working on for gender equality and diversity?
- The coronavirus situation has resulted in a significant increase in the burden imposed by homeschooling, nursing care and childcare. We believe that providing a flexible and realistic working style to all employees, including women, is a matter of urgency. What steps are you taking?
- When we consider "the new normal" of the coronavirus era, what will be important to establish and implement in terms of lifestyles, approaches to work, and the way in which companies operate, and which initiatives do you think should be taken?

Disclosure on anti-corruption practice (Anti-bribery)

Anti-corruption initiatives

We have been involved in the Tokyo Principles on collective action since FY2018. As an investor, Resona supports the Global Compact Network Japan (GCNJ) that carries out activities geared to making collective action for anti-corruption to Japanese companies as part of the Siemens Integrity Initiative worldwide project on collective action to combat corruption. Through our activities, we are encouraging the formulation and disclosure of policies by companies.



Short-term goal

Acquire companies to support the Tokyo Principles

- March 2018**: Official announcement of the Tokyo Principles
- May 2019**: Joint meeting among GCNJ, the Anti-Bribery Committee Japan (ABCJ), and investors (Resona)
 - Current awareness and future activities
- June 2019**: Meeting among ABCJ, Resona and the signatory companies: mapping the follow-up to promote anti-corruption activities and ensure information disclosure based on the Tokyo Principles
 - Importance of sharing current conditions and issues and promoting information disclosure
 - GCNJ Anti-corruption Subcommittee, GCNJ Secretariat**
- September 2019**: Anti-corruption Annual Forum 2019
- November 2019**: **GCNJ Anti-corruption Subcommittee**
 - Speech on "The importance of anti-corruption initiatives from the standpoint of investors"
- September 2020**: **Anti-corruption Annual Forum 2020**
 - Participated in a panel on the topic of "Use of plea-bargaining / whistleblowing systems and frontline measures to prevent corruption - notes from the coronavirus crisis"
- November 2020**: Participated in an ABC (Anti-Bribery/Corruption) conference panel on the topic of "International trends in prevention of corruption overseas - issues and practice in relation to compliance countermeasures"

Medium-term goal

Promoting information disclosure related to anti-corruption based on the Tokyo Principles

- End of 2020**: Promote anti-corruption activities and ensure information disclosure based on the Tokyo Principles
 - Investors to apply the Tokyo Principles to their investment process
 - Promoting regular workshop dialogues among companies and investors
 - Anti-corruption workshops with experts
 - Anti-corruption enhancement month campaign and symposium (every October)



2 Constructive dialogue and engagement with investee companies (Passive investment)

We clearly distinguish between the roles of dialogue and engagement. Accordingly, we define dialogue as “promoting mutual understanding through communication with the companies” and define engagement as “achieving results by deciding on issues to be addressed and discussing such issues with the aim of finding solutions.”

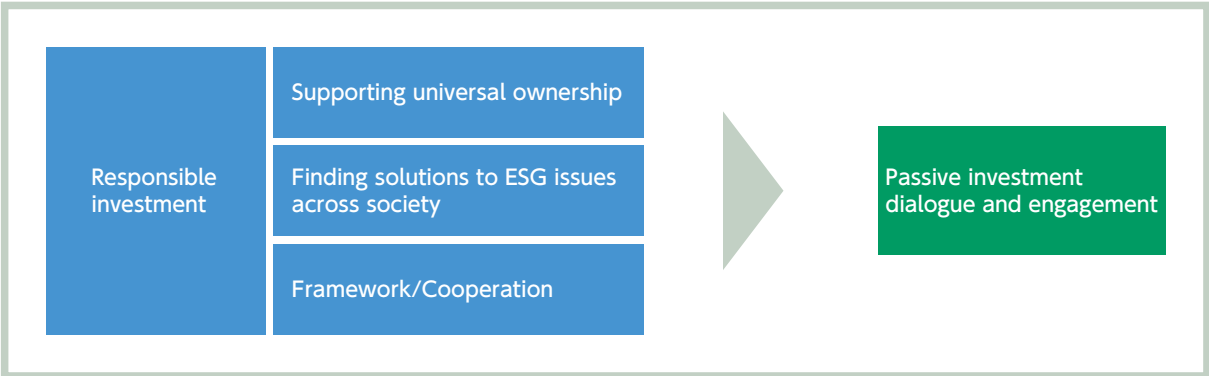
The Responsible Investment Division monitors both financial and non-financial aspects of investee companies, and actively undertakes dialogue and engagement by encouraging investee companies to take a medium- to long-term perspective to increase their corporate value and to achieve sustainable growth.

| | |
|----------------------------------|--|
| Equity/Passive investment | We conduct dialogue and engagement over a long-term trajectory with our sights set on helping to elevate markets overall. This is because we engage under the assumption that we will extensively maintain our shareholdings of the investee companies, and that there are limited possibilities to sell the position. |
|----------------------------------|--|

We initiated approximately 4,000 instances of contact with investee companies for the year spanning July 2019 to June 2020. Of that number, such contact included instances of dialogue and engagement whereby the Responsible Investment Division visited investee companies or otherwise had investee companies visit Resona Asset Management. The number of instances of such contact (number of companies) is as stated in the table below.

[Total number of dialogues and engagements conducted]

| | Number of dialogues (number of companies) | Number of engagements (number of companies) |
|-----|--|--|
| 267 | Equity/Passive investment [Responsible Investment Division] | 62 ⁽⁵⁴⁾ 205 ⁽¹⁵⁸⁾ |



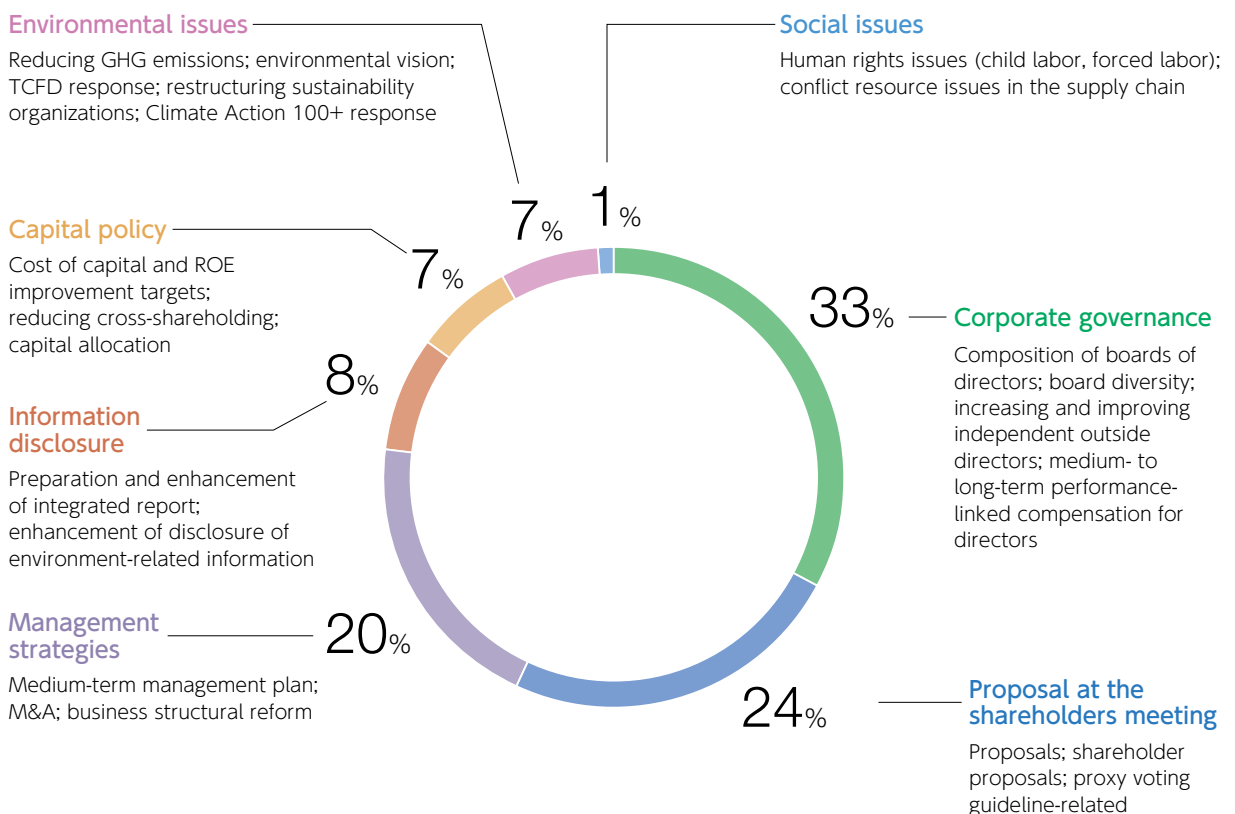
Equity/Passive investment – Dialogue

Passive investment for Japanese equities involves investing in a wide range of companies and maintaining such holdings on an ongoing basis. The Responsible Investment Division carries out dialogue on topics mainly related to the proposals of the companies' annual general meetings (AGMs) and corporate governance to conduct proxy voting more appropriately.

In FY2019 there were many hostile acquisitions and takeover bids, in association with which there was an increase in dialogues based on requests for discussions from the side proposing the takeover and the takeover target. There was also an increase in dialogues involving the explanation of details of proposals of AGMs received by companies from shareholders. During such dialogues, we confirmed and discussed company strategies for improving corporate value over the medium and long term. The proportion of dialogues related to such management strategies and shareholder proposals rose accordingly.

We have also started dialogues with REITs. In our dialogues with REITs we discussed the elimination of conflict of interest in relation to purchasing sponsor properties, and with regard to corporate governance, their views on the independence of individuals who serve concurrently as executive officers of a REIT and as officers of the asset manager.

Topics of dialogue



Equity/Passive investment – Engagement

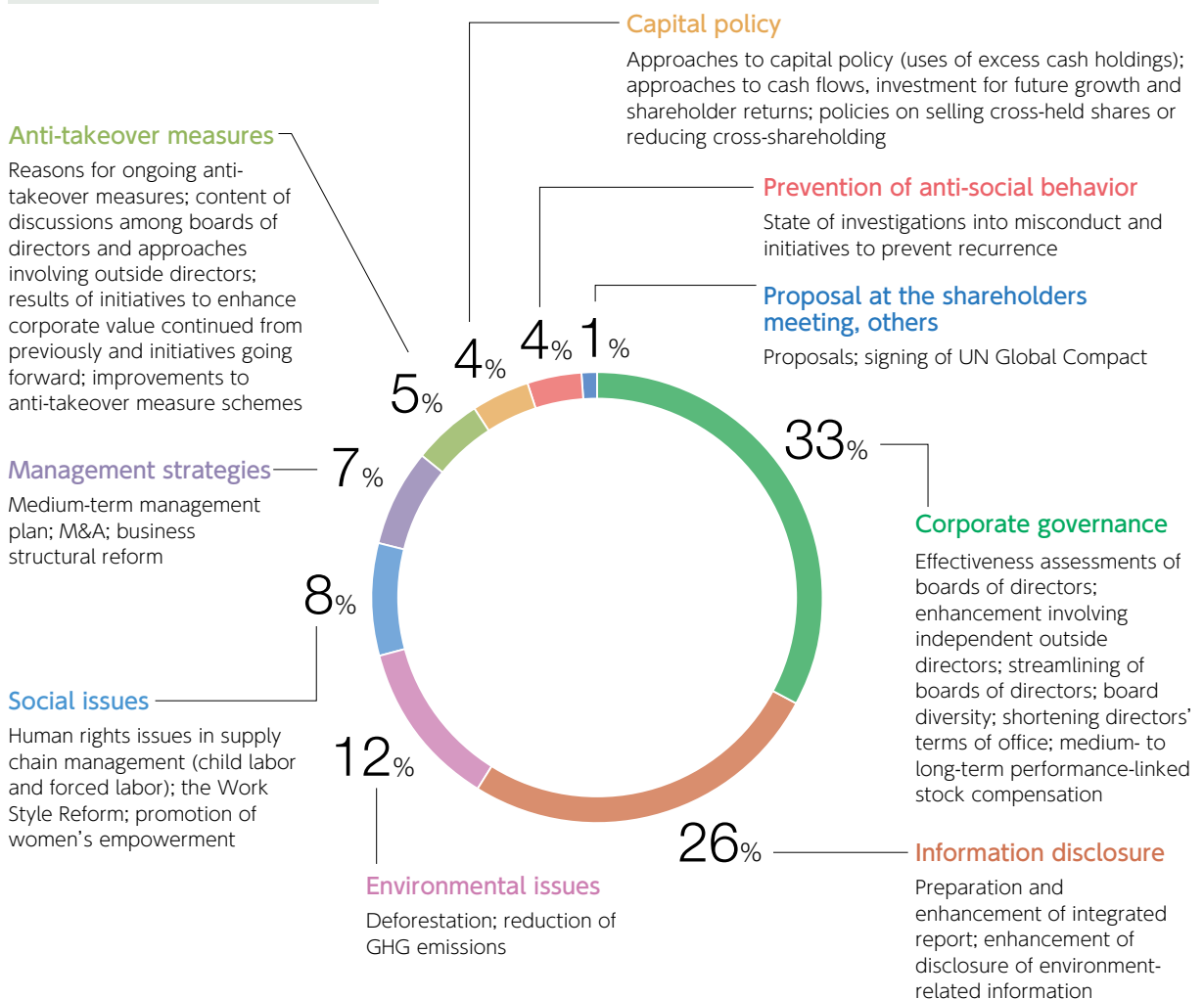
■ Engagements focused on corporate governance and disclosure on ESG and non-financial information

The Responsible Investment Division is holding shareholder relations (SR) meetings with corporate directors and managers in charge of general affairs. In FY2019 we engaged with boards of directors on the topic of requiring diversity in terms of female and foreign directors, on the topic of increasing the number of independent outside directors, and on the topic of reducing cross-shareholdings. We also held many meetings in which we used integrated reports to cover ESG in general. We requested companies to further improve their ESG information disclosure, including information related to TCFD.

■ Engagements focused on environmental issues and social issues

As shown in the feature on page 44, starting in August 2017, we began engagements focused on procuring “sustainable palm oil” related to environmental issues and social issues. In the current fiscal year, we continued to visit palm oil companies and to promote the procurement of “sustainable palm oil.”

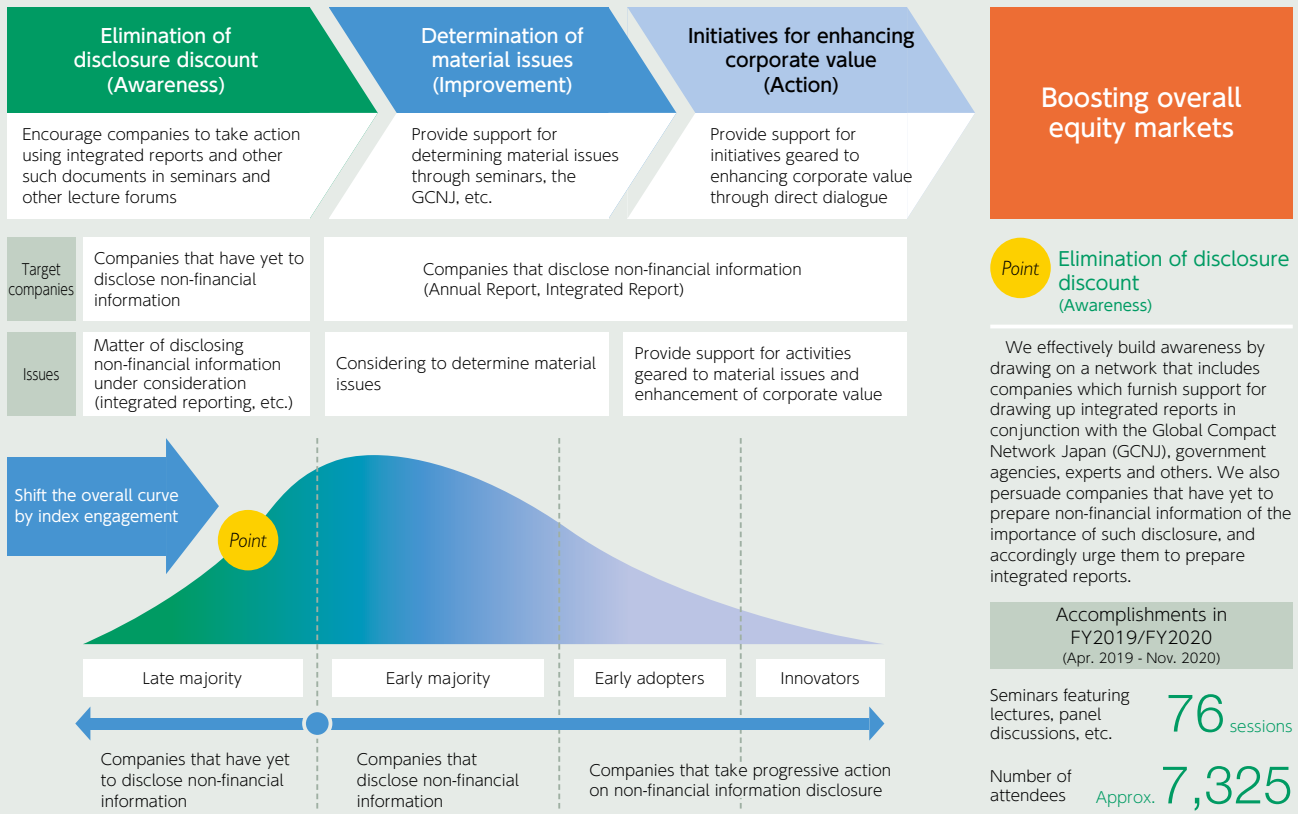
Topics of engagement



Enhancement of disclosure on non-financial information

Support for enhancing disclosure of non-financial information for passive engagement

We organize seminars and other such forums geared to companies listed on the First Section of the Tokyo Stock Exchange. In such forums we urge companies that have yet to disclose non-financial information to do so, and to prepare integrated reports and other such documents. We provide support to companies that disclose non-financial information by assisting them to determine material issues (materiality) and disclose information that integrates business risk and materiality. Meanwhile, we provide support to companies that take progressive action on non-financial information by assisting them with initiatives geared to enhancing their corporate value.



Resona's main external activities from November 2019 through November 2020

- 30% Club** Board member of Japan Investor Group and leader of Best Practice Sub-group
- METI** Member of "Study Group on Realizing Dialogue to Create Sustainable Corporate Value"
- MOE** Member of the "Study Group for the State of Enforcement of the Act on Promotion of Global Warming Countermeasures"
- METI/MOE** Member of the "Circular Economy and Resource Circulation for Plastics Finance Study Group"
- Japan SDGs Action Promotion Council** Auditing
- Cohosting by Financial Services Agency/GSG-NAB Japan** Member of "Impact Investing Roundtable"
- MAFF** Member of "Biodiversity Strategy Study Group"
- MAFF** Member of "Investigative Committee for the Practice and Visualization of Decarbonization in the Food Supply Chain"
- MOE** Member of the selection panel for the "ESG Finance Awards Japan, Environmentally Sustainable Company Section"
- Research Institute for Advancement of Living Standards** Member of "Research Committee Investigating Information Disclosure For 'Better Companies' And The Promotion Of Principles For Responsible Investment From The Viewpoint Of Working People"

Chapter 4

ESG Integration and Engagement on Equity/Active Investment



Through our active investment in equities, not only do we seek to improve performance over the medium to long term through ESG integration and through dialogue and engagement with the companies in which we invest, but we also contribute to the sustainable development of stock markets.

The Equity Investment Division is responsible for four active strategies based on its independent investment philosophy to manage the assets entrusted to us by our clients. To provide excellent performance over the long term, the management team responsible for each strategy continuously works to enhance investment management.

With both politics and the economy undergoing dramatic change, there are widely shared concerns about the long-term sustainability of the current socioeconomic system. From a corporate perspective, it is necessary to control management risks based on an understanding of ESG issues as they relate to business activity. It is also becoming increasingly important for companies to draw up an effective growth strategy that is in harmony with the sustainable development of the society.

Based on this awareness, in each of the strategies of the Equity Investment Division, we will enhance stock selection through ESG integration and conduct proactive engagement to enhance the corporate value of our investee companies. Through these activities, we are fulfilling our duty as a responsible investor and aiming to maximize long-term investment performance. We believe that it is not only a company's strengths and strategies that are important when seeking to achieve sustainable increases in corporate value, but also the existence of a corporate philosophy that is in harmony with society, and the cultivation of a distinct corporate culture. Our sense is that an increasing number of our dialogues with the companies in which we have invested are grounded in this perspective.

The Equity Investment Division places importance on being faithful to its investment philosophy in each strategy. While sharing our basic policy in responsible investment, regarding specific ESG initiatives, we respect the independence of each team to ensure compatibility with their investment philosophy. Below we introduce the philosophy of each management team and report on the status of the initiatives in which they are involved. We hope this will give you a sense of the sincere and progressive approach taken by each team as they enter into dialogue and engage with the companies in which they invest, with the ultimate goal of achieving improvements in long-term performance for clients.

■ ESG initiatives based on the independent investment philosophy in each active investment

| The Four Strategies | Materiality in investment philosophy | Main paths to performance | Topics of dialogue and engagement |
|----------------------|--|---------------------------|---|
| Research active team | Profit growth sustainability | Integration | <ul style="list-style-type: none"> • Corporate involvement in social needs and problem • Dialogue with the capital market |
| Global equity team | Continuous improvement in competitiveness | Integration | <ul style="list-style-type: none"> • Strategies that are suitable for corporate identities • Strategy execution frameworks and corporate culture • Initiatives toward continuous improvement |
| Value team | Corporate structure reforms | Engagement | <ul style="list-style-type: none"> • Motivation of enhancing corporate value among the management team • Corporate governance • Recognition of issues and effectiveness of countermeasures |
| Small-cap team | Sustainable growth that captures structural changes in society | Integration | <ul style="list-style-type: none"> • Changes in social structure • Corporate philosophy shared among the management team |

Constructive dialogue and engagement with investee companies (Equity/Active investment)

We clearly distinguish between the roles of dialogue and engagement. Accordingly, we define dialogue as “promoting mutual understanding through communication with the companies” and define engagement as “achieving results by deciding on issues to be addressed and discussing such issues with the aim of finding solutions.”

Active fund managers and research analysts monitor both financial and non-financial aspects of investee companies, and actively undertake dialogue and engagement with the aim of urging such investee companies to take a medium- to long-term perspective with respect to increasing their corporate value and achieving sustainable growth.

Equity/Active investment

We conduct engagement with investee companies tailored to their circumstances to enhance their corporate values, and dialogue with them in order to gain greater confidence in our investment process, in addition to performing analysis of such entities in accordance with our own investment philosophy.

We initiated approximately 4,000 instances of contact with investee companies for the year spanning July 2019 to the end of June 2020. Of that number, such contact included instances of dialogue and engagement whereby fund managers and research analysts visited investee companies or otherwise had investee companies visit Resona Asset Management. The number of instances of such contact and number of companies are as stated in the table below.

[Total number of dialogues and engagements conducted]

Number of dialogues (number of companies) Number of engagements (number of companies)

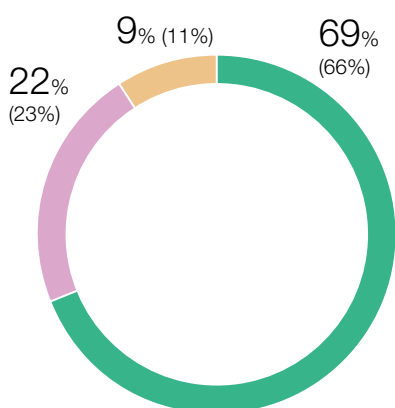
1,515

Equity/Active investment
[Fund managers and research analysts]

1,434 (633)

81 (30)

Topics of engagement (Previous year in parentheses)



- Profitability improvement / Business model / Business strategy
- Capital efficiency improvement / Capital policy
- Governance / Abolition of anti-takeover measures / IR improvement

Key points and issues

1. The importance of the common goal of enhancing corporate value over the medium to long term

- Ensuring that constructive dialogue results in corporate actions that lead to enhancements in corporate value

2. Increase in request from corporates for dialogue

- There has been an increase in requests not only to explain business results and strategy but also to exchange opinions on ESG and other topics
- In many cases the company specifically asks for a certain fund manager or research analyst of Resona Asset Management

3. Strengthening dialogue and engagement in order to find solutions to social challenges

- The strong point of active equity investment is deep discussion that is aligned with the corporate value of individual companies
- Investigation of impact investments, etc.

Equity/Active investment

| Strategy | Materiality in investment philosophy | Focus fields |
|----------------------|--------------------------------------|--|
| Research active team | Profit growth sustainability | The ability to create social benefits (the ability to increase "corporate profits" amid involvement with "social profits") |

Message from the fund manager

We believe that stock prices converge with corporate value over the medium to long term and that focusing on sustainable growth in corporate value allows excess returns to be captured. To expand corporate value, in addition to financial growth and soundness in the form of sales and profits, we also believe the company's non-financial competence is important in its sustainable growth. We define this competence as "the ability to create social benefits" and focus on the analysis of non-financial information. "The ability to create social benefits" involves responding sincerely to social demands and issues through originality and ingenuity and the ability of companies solving these issues to respond and find social needs.

The stronger social demands and issues become, the more proactively companies that can solve those issues will be supported by consumers, business partners, employees, and society. Those companies will see profit growth from sustainable increases in sales and higher valuations from shareholders, which are invaluable in enhancing corporate value. We believe that the value of companies with a strong "ability to create social benefits" will increase over the long term. We emphasize "analysis of market expectations" and analyze the background behind high or low stock price valuations from the market and changes in the valuations. Another important factor during this analysis is the "ability to create social benefits."

Recently, among companies calling for ESG management, there are more cases of companies formulating management strategies around a thinking close to our "ability to create social benefits," and both dialogue and corporate analysis are going more smoothly. Furthermore, even though companies are equipping themselves with the "ability to create social benefits," there are cases where we believe this is not being sufficiently communicated to stakeholders, starting with shareholders. In these cases, we are providing our opinions on the dialogue between the company and the stock market and the various disclosure materials and proactively holding dialogue to contribute to corporate value creation.

Dialogue example: Giving concrete form to environmental initiatives and supporting improved assessment by the stock market

Dialogue with companies: Major food manufacturer Company A

Situation

Company A is a pioneer in the field of instant noodle. While it boasts the top share in the instant noodle market in Japan, abundant growth opportunities have been left untapped in overseas markets. It was necessary to communicate in more concrete form to the company's active initiatives in relation to environmental issues, not least in order to further raise brand awareness among overseas consumers.

Dialogue and engagement

The unchanging values of Company A are rooted in the spirit of the founder, which is one of exploring the various possibilities for food, and gratifying people everywhere with the pleasures and delights that food can provide. Our judgment was that in order to achieve its vision, Company A must set and disclose concrete numerical targets for the long term. When we conveyed this point to Company A, it was found that they had a similar awareness of this problem, and that they were moving ahead with related initiatives. This dialogue raised our expectations with regard to an accelerated implementation of specific initiatives.

Company A's initiatives and our expectations

Company A announced its environmental strategy in June 2020. It included a target to reduce FY2030 CO₂ emissions by 30% from the FY2018 level. In addition, it incorporated commitments such as switching all containers for its main brands to biomass ECO cups by the end of FY2021, and increasing the procurement ratio for sustainable palm oil to 100% by FY2030. As companies all over the world are placing higher priority on environmental issues, we are convinced that initiatives such as these will help Company A that develops its brand overseas enhance its corporate value.

| Strategy | Materiality in investment philosophy | Focus fields |
|---------------------------|---|--|
| Global equity team | Continuous improvement in competitiveness | Strategies that are suitable for corporate identities Strategy execution frameworks and corporate culture |

Message from the fund manager

Our investment philosophy is to invest in “companies that continue to beat the competition.” To facilitate this we constructed an assessment framework called “ISDK” that focuses on the elements that companies that consistently beat the competition have in common. “ISDK” is a framework that assesses the consistency of the company’s self-awareness (its Identity), its Strategy, its ability to Develop & Deliver, and its process for evaluation and improvement (KPI & Kaizen). Use of this framework allows us to make inferences about whether the company will be able to continuously improve its competitiveness going forward.

Through dialogue we have come to realize that not only do companies that consistently triumph over the competition generate superior economic returns, but that their innovation also generates benefits, both direct and indirect, for a variety of stakeholders, including the environment, society, shareholders, and employees. That the companies in our investment portfolio have won awards and been ranked highly for their ESG efforts by third-party organizations, and that our portfolio has come through the ISS climate change risk analysis with flying colors, has only strengthened this perception.

Our view is that continuous improvement in competitiveness through ISDK and sustainability discussions exist on the same axis. We believe that companies that consistently beat competition from similar views. For that reason, rather than performing assessments of individual elements associated with sustainability, including ESG, we use ISDK to analyze how each element contributes to the generation of competitiveness. When we judge that the element in question could facilitate improvements in competitiveness for the company we are in discussions with, we actively initiate further dialogue.

Dialogue example: Supporting visualization that leads to a philosophy and strategy for achieving the company vision

Dialogue with companies: Mid-sized cosmetics manufacturer Company B

Situation

Company B is a manufacturer of everyday goods and cosmetics with a dominant market share in styling products for men. In recent years not only has the environment in which the company operates gone through significant change, but the speed of those change has increased. In this environment, Company B worked on sharing and instilling a vision of itself, based on how it projected itself to be in 2027, not as a general cosmetics manufacturer but as a cosmetics supplier with unique strengths.

Dialogue and engagement

Company B was well aware of the importance of sharing and instilling its vision and had been promoting it on a company-wide basis, but it was not known as to whether investors had gained an understanding of this from the Integrated Report and the new medium-term management plan. We entered into a discourse with the company about its people and its strengths from a long-term viewpoint, and about the links between its philosophy and strategy. On this occasion we used multiple approaches to further intensify the discussions, such as by giving our Responsible Investment Division a seat at the table.

Company B’s initiatives and our expectations

In the 2020 edition of the Integrated Report Company B paid particular attention to blending financial and non-financial information, and provided careful explanations of specific value creation processes and of its “human-oriented company” philosophy. With regard to the “human” elements that Company B had often raised in discussion with our team, we feel that it has made progress in making visible the strengths of the company and its people, and the links between its philosophy and strategy, such as by making available engagement scores that it had not hitherto disclosed. We have also been told that when the 2021 editions of the Integrated Report and new medium-term management plan are announced, the company intends to include information on material issues (materiality) that was not presented in the 2020 edition of the Integrated Report, that takes into account discussions held thus far.

Equity/Active investment

| Strategy | Materiality in investment philosophy | Focus fields |
|------------|--------------------------------------|---|
| Value team | Corporate structure reforms | Motivation of enhancing corporate value among the management team |

Message from the fund manager

Among Japanese companies, we believe there are many companies with the hidden potential to greatly change both their earnings power and market valuations through improving management quality and corporate governance. In addition to discovering these types of companies that we believe can increase their corporate value, we are holding long-term dialogues as a stakeholder and contributing to increasing the corporate value of investee companies, aiming to maximize our fund returns.

As part of our efforts since the fund was established in 1999, we have focused on companies that have seen declines in corporate value due to weak financial results. We are holding dialogues with those companies to identify factors that hinder increases in corporate value and evaluating means of eliminating those factors. From the standpoint of ESG, governance is one of the critical factors that is directly connected to corporate value increase, so we place focus on it. Specifically, we are focused on the changes of company presidents, the improvements in governance structures, the composition of boards of directors, the use of outside directors, subsidiary management, reviewing business portfolios, cash flow management, balance sheet streamlining, cross-shareholding policy, and anti-takeover measures, and are holding discussions to enhance corporate value. The accumulation of successful and unsuccessful case studies in the reform of investee companies over the long term is a valuable asset for the team.

In approaching dialogue, we have created a discussion paper to visualize the essential issues faced by companies and the solutions, using financial data, competitor analysis, and competitor case studies, and continuously hold discussions with management team members. We believe in the ideal of improving corporate results in a way that energizes all stakeholders, including the employees and business partners of investee companies, and we are working to thoroughly communicate this approach.

Dialogue example: Improving profitability, enhancing information disclosure

Dialogue with companies: Major household sundries manufacturer Company C

Situation

Company C is a supplier of pest control products (insecticides) with a dominant No. 1 share in Japan. Despite this, a corporate culture centered on sales led to the normalization of inefficient use of sales promotions and advertising, and the sale of low-margin products, resulting in a continuous decline in profitability. In addition, the domestic market for pest control products accounted for the majority of profit, and its revenue structure was such that its business results were much influenced by summer weather patterns in Japan. The other hand, the current president of the company is steering it towards a focus on profit, and is moving forward with reforms such as reducing product returns (where disposal losses occur, causing damage to profits), cutting low-margin products, and lowering the ratio of marketing (advertising and sales promotion) expenses.

Dialogue and engagement

Since we invested in 2017, we have continuously engaged the company in dialogue, including the use of discussion papers, primarily in relation to (1) the efficient management of sales promotion expenses, (2) reductions in low-margin products, and (3) the expansion of revenue from everyday goods and the overseas business in order to escape from the reliance on domestic pest control. In addition, we have worked for more substantial disclosure.

Company C's initiatives and our expectations

This fiscal year, we have seen progress in such areas as more efficient use of marketing expenses, cuts in low-margin products, and reductions in product returns, and profit margins have improved steadily. In the hitherto loss-making overseas businesses, we have begun to see signs of growth in revenue and we expect the company to escape from its dependence on the domestic market for pest control over the medium to long term. Nevertheless, there is still room for improvement in the disclosure of information related to the overseas business, and we will continue to share our views with the company going forward.

| Strategy | Materiality in investment philosophy | Focus fields |
|----------------|--|--|
| Small-cap team | Sustainable growth that captures structural changes in society | Demand creation and expansion with the structural changes in society Management team/corporate philosophies |

Message from the fund manager

The investment philosophy of our team is to invest in companies that capture “demand growth in line with the structural changes in society.” This year marks 23 years since our investment team was founded in 1997. During that time, through our unchanging investment philosophy, we have continued to see changes in society, identified and invested in the necessary companies, and engaged with them as necessary as we evolved over time together. Through this process, I have truly realized that there have been large qualitative changes in society over the past 20 years. Rather than economic growth and political conditions, I feel that these changes involve a deeper, spiritual level of human desire that is more emotional and sympathetic.

These types of qualitative changes are not limited to consumer behavior. There is more empathy and dialogue in areas involving diverse parties such as individuals and society, society and operating companies, operating companies and investors, and investors and asset owners. I believe that these connections are beginning to grow stronger and become more interlinked. As fund managers at an investment manager, we are aware of our role in being part of the start of large social changes. Using the knowhow, insight, emotion and passion we have accumulated as mobilizers, we will devote ourselves to realizing a better society.

Dialogue example: Building a consistent story from corporate philosophy, to management strategy, to a vision of future society

Dialogue with companies: Sales support company Company D

Situation

Company D began life as a temporary staffing company. Company D was concerned that temporary staff were not being used effectively by society because most of companies are turning towards more efficient management. Rather than focusing on the selling of man-months, Company D sought to raise the value-added by the business by generating a virtuous spiral through making teams responsible for their results, improving education, growth opportunities and motivation, leading in turn to enhanced quality of life. However, with the business diversifying in one direction after another, management perceived a failure to accurately convey the value they offered, and their vision, to the world at large.

Dialogue and engagement

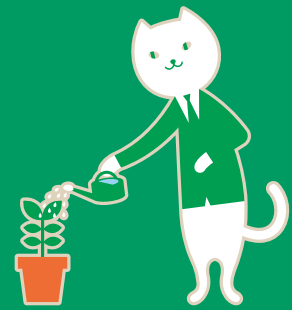
As a long-term investor that had built a relationship with the company over many years, we shared management’s perception of the problems mentioned above. In addition to communicating as market participants our assessment of the company, how the company looks to others, and investors’ needs, we organized collaborative study meetings, led by our Responsible Investment Division, to discuss the environment in which Company D operates from an ESG perspective, including industry trends, and the needs of society. During the course of these discussions we developed a strengthened mutual understanding and trust. Going forward we intend to further intensify discussions with a view to resolving the problems in question.

Company D’s initiatives and our expectations

It was Company D’s original aspirations and passions that led it to engage with social issues, and which were then sublimated into the business, resulting in continuous growth. This makes Company D highly receptive to ESG initiatives, and when this has been organized into the necessary forms and communicated externally, we expect the company to be able to gather more personnel, gain support from customers, and accelerate its growth. We anticipate that this will have a considerable social impact, and resolve certain social challenges.

Chapter 5

ESG Integration and Engagement on Fixed Income/Active Investment

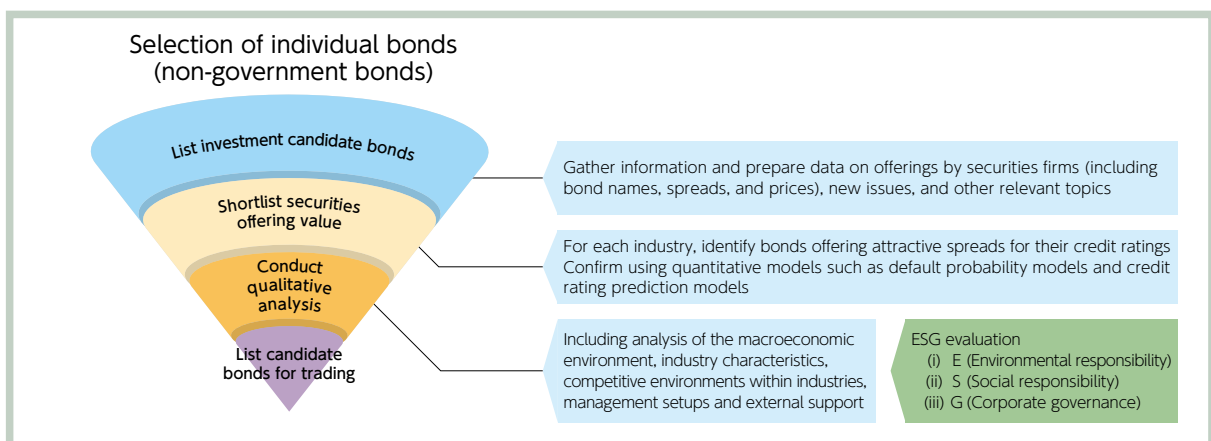


In our active investment for Japanese fixed income, we integrate ESG issues into our investment process in order to gain secure satisfactory investment income stably over the medium to long term in accordance with our basic policy on responsible investment.

As SDGs awareness increasingly becomes part of the norms of society, we believe that the influence of environmental (E), social (S), and corporate governance (G) factors with regard to creditworthiness of issuers will grow more than ever. We believe that if bond issuers take appropriate action on ESG issues they can control unpredictable volatility in cash flows and maintain sustainable growth, and that if they are well prepared for a range of risks they can avoid damage to their corporate value, thereby helping to increase the value of client assets.

We recognize the importance of making sure that bonds held do not default or fall below investment grade before they are redeemed when investing in Japanese non-government bonds, such as corporate bonds. When determining the creditworthiness of bonds and issuers during selection of investees and monitoring of securities held, we supplement quantitative analysis such as financial analysis and assessment of liquidity with qualitative analysis that takes ESG factors into consideration. When determining creditworthiness, credit analysts take ESG factors fully into account during their analysis, and discuss the investment process with fund managers. Fixed income investments with long maturities in particular offer limited predictability, and we therefore believe it is important to integrate ESG issues into analysis of creditworthiness in order to prepare for risks that could materialize in future.

When performing an ESG evaluation, experienced credit analysts with an awareness of potential problems conduct assessments and form judgments through dialogue with issuers, amongst other means, and through collaboration between internal resources such as the Responsible Investment Division and the Equity Investment Division, there are becoming able to take a more multitiered approach.



We place importance on ESG engagement with issuers in addition to integrating ESG issues into investment process. During individual meetings with issuers, we have expanded discussions to cover ESG issues in the medium to long term, in addition to topics related to business results and financial strategies. By doing so we hope to avoid unanticipated credit risk that could materialize during our investment period until redemption by recognizing potential risks involving such issuers, gaining a shared awareness of challenges, and persuading them to address ESG issues.

Our ESG engagement involves jointly adopting with issuers the two topics of climate change and risk management in supply chains, which are global issues espoused by Resona Asset Management, while deciding on several subtopics from the perspective of fixed income investment. As we pursue engagement, we are focusing on the issuers of those bonds we hold that have particularly long maturities.

The fact is that bond investors have limited means to directly exert influence over issuer companies' management in the way that voting rights allow. To make our engagement more effective, therefore, we are liaising with the Responsible Investment Division and the Equity Investment Division, among others, to be able to pass the opinions of bond investors on to senior management at issuers.

[Total number of dialogues and engagements conducted]

From July 2019 to June 2020

Number of dialogues (number of companies) Number of engagements (number of companies)

92

Fixed income/Active investment
[Fund managers and research analysts]

70 (41)

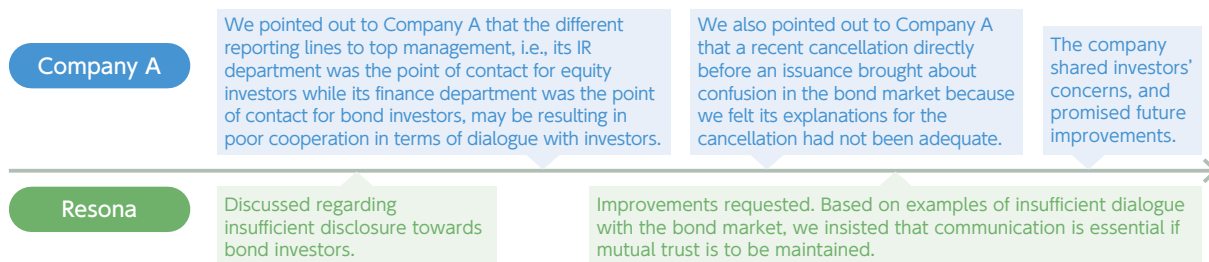
22 (17)



Fixed income/Active investment – Examples of dialogue and engagement

[Corporate governance] Company A (automobile company)

Company A had governance problems, and we entered into discussions with them regarding disclosure to be improved. We engaged with them in relation to reorganizing their framework for departments with jurisdiction, and on their approach to dialogue.



[Decarbonization and stranded assets] Company B (electric power company)

Company B, which had been spun out as the thermal power generation division, was planning its first bond issuance. With the risk of coal-fired power generation facilities that it held becoming "stranded assets," we engaged with the company regarding the long-term outlook and its environmental policy.



Chapter 6

Resona's Proxy Voting



As an institutional investor, Resona Asset Management assumes key responsibility for facilitating corporate governance improvements of its investee companies. Accordingly, the corporate activities of our investee companies have a significant impact on the environment and society and in turn, we recognize that those changes also affect our investment results.

We have drawn up Global Governance Principles encompassing Japanese and global equities based on that awareness, and have established proxy voting guidelines for respective Japanese and global equities.

Resona Global Governance Principles

■ Board responsibilities

- The board should act in the interests of company's shareholders by promoting sustainable growth of the company from a long-term perspective. This involves assuming accountability to shareholders and other stakeholders, and giving consideration to a wide range of stakeholders integrating ESG factors.
- The board should supervise execution of duties by management.
- The board should effectively assess and supervise business results and compensation with respect to management.

■ Board composition

- The board should preferably have no less than a majority of independent non-executive directors.
- The board should preferably have a sufficiently diverse mix of directors to ensure effective supervision of business activities of management.

■ Ensuring reliability of information and information disclosure

- The board ensures reliability of financial and non-financial information disclosed by the company, and accordingly assumes supervisory responsibility for providing such information to the respective stakeholders.
- The board should disclose highly reliable information in a timely manner so that shareholders are able to fully exercise their voting rights upon having sufficiently understood content of proposals, and also so that shareholders are able to effectively conduct engagement regarding matters affecting their interests.

■ Shareholder rights

- Rights of all shareholders should be equal and a shareholder's voting rights should be directly linked to the shareholder's economic stake.
- The board should ensure that shareholders have voting rights on key decisions and transactions of the company.

Whereas these governance principles constitute recommendations, as such companies are to draw up voting guidelines for Japanese and global equities that are aligned with their business realities, in light of varying laws, regulations, business practices and corporate governance codes of the respective countries.



Establishment and review of proxy voting guidelines

We make decisions with respect to initiatives such as the establishment and review of proxy voting guidelines upon discussion in the Responsible Investment Committee. Proxy voting guidelines are updated by considering factors such as legal revisions, required standards under Japan's Corporate Governance Code, and prevailing circumstances affecting governance of a given enterprise.

We periodically consider the prospect revising the proxy voting guidelines no less than once per year. Please refer to Resona Asset Management's website for information on our proxy voting guidelines. In addition, proxy voting details (Japanese equities, individual investee companies, specific proposals) are posted on our website every quarter, and from the shareholders meetings held from April 2020 onward, reasons for voting are also disclosed, regardless of whether the vote is for or against a proposal.

Approach to proxy voting (In Japanese only) ▶ <https://www.resona-am.co.jp/investors/giketuken.html>

■ Revised proxy voting guidelines (revisions applicable for the shareholders meetings held from January 2020 onward)

| | | |
|------------------------|--|---|
| Japanese equities | Board composition | We will vote against if: The company does not appoint independent outside directors to <u>one-third</u> of the total board composition. However, for a company with a board of corporate auditors that does not have a parent company or a controlling shareholder, we will vote against if: The company does not appoint <u>two or more outside directors, comprising at least 20% of the board.</u> |
| | Independence criteria for outside directors and corporate auditors | Where outside directors correspond to any of the following, they shall be deemed to have no independence. <u>(i) When the company has not filed or has no intention of filing a notification with a financial instruments exchange to the effect the director is an outside director as independent officer</u> <u>(ii) When they are associated with a major shareholder of said company that holds more than 10% of the shares (or has had an association within the past 10 years)</u> |
| | Director compensation (stock options, equity grants) | We will support compensation to the outside directors and supervisory committee members consisting of: Fixed stock compensation and <u>stock-based compensation (stock options with a strike price of ¥1);</u> and Compensation that is not excessive (as a general rule, not be more than ¥5 million, and the cash to shares ratio should not be more than 1:0.3). |
| | Revisions applicable for the shareholders meetings held after January 2021 onward | |
| | Board composition | We will vote against if: The company does not appoint independent outside directors to <u>one-third</u> of the total board composition. However, for a company with a board of corporate auditors that does not have a parent company or a controlling shareholder, we will vote against if: The company does not appoint <u>two or more outside directors, comprising at least 25% of the board.</u> We will vote against a company that has a parent company or controlling shareholder if: Independent outside directors <u>do not comprise a majority of the board members.</u> |
| | Independence criteria for outside directors and corporate auditors | Where outside directors or corporate auditors correspond to any of the following, they shall be deemed to have no independence. <u>(i) When the company has not filed or has no intention of filing a notification with a financial instruments exchange to the effect the director is an outside director as independent officer</u> <u>(ii) When they are associated with a major shareholder of said company that holds more than 10% of the shares (or has had an association within the past 5 years)</u> <u>(iii) When their term of service at said company is 12 years or longer</u> |
| | Director compensation (retirement bonuses) | We will vote against if: <u>The individual payments or the total payments are not disclosed.</u> |
| Capital policy | We will support a proposal of disposal of treasury stock through allocations to foundation for the purpose of raising funds for establishing and supporting a foundation, in instances where the dilution rate would be within a certain level (<u>1% or less</u>), and <u>voting rights would not be exercised.</u> | |
| Anti-takeover measures | <u>We will vote against the introduction or continuation of anti-takeover measures if the company has not conducted business operations efficiently where: ROE has been less than 5% for three consecutive fiscal years; The cash position is excessive (net cash is 25% or more of total assets); or ROE has ranked in the bottom 25% of the industry for three consecutive fiscal years.</u> | |

■ Future policy (Considering adopting for the shareholders meetings held from 2022 onward)

| | |
|--------------------|--|
| Board composition | · We believe it is preferable for outside directors to account for a majority of the total board composition. Hence we will consider when to incorporate this standard into the proxy voting guidelines. In the next revision to proxy voting guidelines, we will consider whether to: Require the number of independent outside directors to be at least one-third even for a company with a board of corporate auditors. |
| Diversity | · We confirm whether the company itself has determined its approach to diversity and size of the board of directors, as well as its attitudes to gender and international representation, and we check progress made towards these initiatives. We will focus first on greater gender diversity, and engage with the management. Going forward we will consider voting against companies that do not have female executive officers. |
| Cross-shareholding | · Under the revision to Japan's Corporate Governance Code, companies are required to disclose their policies on reductions of cross-shareholdings. We will consider voting against cross-shareholdings that lead to capital inefficiency or a deterioration in corporate governance quality after taking into account the individual management circumstances for companies whose cross-shareholdings exceed a certain level. |

Proxy voting results for Japanese equities (from July 2019 to June 2020)

The following provides details on Resona's proxy voting results for Japanese equities during the period from July 2019 to June 2020. We often decide how to vote on proposals based on details released in convocation notices and other such disclosures. However, there are also cases where we weigh the pros and cons of proposals after having gained an extensive mutual understanding of the matter at hand through dialogue and engagement with the respective company.

| Management proposals | Opposition ratio | (Previous year) | Total number of proposals | Voted for |
|-----------------------|------------------|-----------------|---------------------------|-----------|
| | 9.8% | (10.8%) | 21,908 | 19,757 |
| Shareholder proposals | Approval ratio | (Previous year) | | |
| | 11.4% | (8.2%) | 237 | 27 |

We thoroughly considered the notion of whether or not shareholder proposals would contribute to enhancing shareholder value over the medium to long term, and whether or not they would better protect the rights of shareholders. Meanwhile, our guidelines on proxy voting placed consideration particularly on the notion of whether or not respective companies meet our standards in terms of their governance frameworks and financial practices.

| Corporate bodies | Opposition ratio (Previous year) | Total number of proposals | |
|--|-------------------------------------|------------------------------|--|
| Appointment and dismissal of directors | 9.1% (9.7%) | 16,547 | We voted against director nominees if issues arose on: appropriateness of board compositions (independence of outside directors); corporate earnings and capital efficiency. |
| Appointment and dismissal of corporate auditors | 13.4% (17.0%) | 2,370 | We deliberated on propriety regarding independence of outside corporate auditors, etc., and if we concluded that there were issues, we voted against. When insufficient explanations were given for reducing corporate auditors overall, or outside corporate auditors, we voted against appointments of representative directors. |
| Appointment and dismissal of accounting auditors | 0.0% (0.0%) | 56 | |
| Director compensation | Opposition ratio (Previous year) | Total number of proposals | |
| Director compensation (*1) | 11.5% (15.8%) | 749 | We voted against director nominees if issues arose on: appropriateness of board compositions (independence of outside directors); corporate earnings and capital efficiency. |
| Payments of retirement bonuses for retiring officers | 47.4% (45.1%) | 137 | Regarding payments for outside directors, corporate auditors, etc., we voted against all payments including when companies were to discontinue such bonus payments due to terminating their retirement bonus plans. |
| Corporate bodies | Opposition ratio (Previous year) | Total number of proposals | |
| Appropriation of surplus | 5.9% (6.4%) | 1,430 | We deliberated on propriety regarding standards for shareholder return policies and retained earnings, etc., and if we concluded that there were issues, we voted against. |
| Restructuring (*2) | 0.0% (0.0%) | 31 | |
| Introduction, renewal or abolition of anti-takeover measures | 93.5% (75.0%) | 93 | We thoroughly considered whether aims and specifics of proposals would contribute to enhancing shareholder value, and if we concluded that a proposal's implementation and administration would not ensure a framework or mechanism that would produce objective and adequate findings from the standpoint of minority shareholders, we voted against. |
| Other proposals related to capital policy (*3) | 0.0% (4.1%) | 47 | |
| Articles of incorporation | Opposition ratio (Previous year) | Total number of proposals | |
| Articles of incorporation | 2.0% (3.1%) | 441 | |
| Other proposals | Opposition ratio (Previous year) | Total number of proposals | |
| Other proposals | 42.9% (0.0%) | 7 | |

*1. Proposals on compensation policy, stock options plans, adoption and amendments to performance-linked compensation, and bonus plans.

*2. Proposals on mergers, transfer of business, equity swaps, equity transfers and company splits.

*3. Proposals on share buybacks, reduction on statutory reserves, third-party allotment, capital reduction, reverse stock splits and issuance of classified stock.



Proxy voting results for global equities ex. Japan (from July 2019 to June 2020)

The following provides details on Resona's proxy voting results for global equities during the period from July 2019 to June 2020.

| | | | | |
|------------------------------|--|--|---|-----------------------------------|
| Management proposals | Opposition ratio 8.8% | (Previous year) (9.2%) | Total number of proposals 33,050 | Voted for 30,127 |
| Shareholder proposals | Approval ratio 83.8% | (Previous year) (80.6%) | 1,788 | 1,498 |

Of the total number of proposals: Proposals related to written consent and proxy access accounted for about one-third; Disclosure on political contributions and lobbying activities accounted for around 20%; and Appointment of an independent chairman of the board accounted for approximately 10%.

· Shareholder proposals requesting reports on climate change rose to 11 (Resona Asset Management's approval ratio of 72.7%). (In the previous fiscal year, there were only two and we supported both of them.)

· There were four shareholder proposals requesting one voting right for each share, all of which we have supported.

| Corporate bodies | Opposition ratio (Previous year) | Total number of proposals | |
|--|-------------------------------------|---------------------------|--|
| Appointment and dismissal of directors | 5.9% (7.6%) | 12,578 | The decline in Resona Asset Management's (RAM's) opposition ratio was caused by a fall in opposition ratios for India and the United States. Opposition ratios were high in Hong Kong, the Philippines and Taiwan due to: Misgivings about the independence of the board of directors and committees, and because there were many individuals serving in multiple positions. |
| Appointment and dismissal of corporate auditors | 0.6% (2.2%) | 490 | |
| Appointment and dismissal of accounting auditors | 0.9% (1.0%) | 1,918 | |
| Director compensation | Opposition ratio (Previous year) | Total number of proposals | |
| Director compensation (*1) | 23.0% (22.1%) | 3,017 | This was because the RAM's opposition ratio in China rose. The reasons for the rise in the opposition ratio in China were that: There was no information disclosure on the proposals; and Directors who received performance shares were involved in the management of the compensation plan. We have opposed half of the proposals in the United States because of dilution. Of the remaining half, we have opposed many due to CEO compensation that was not compatible with performance and the share price, or due to insufficient explanations of changes or revisions to the compensation structure. |
| Payments of retirement bonuses for retiring officers | 0.0% (20.7%) | 0 | |
| Capital policy | Opposition ratio (Previous year) | Total number of proposals | |
| Appropriation of surplus | 1.3% (0.7%) | 1,178 | |
| Restructuring (*2) | 18.7% (13.6%) | 2,310 | |
| Introduction, renewal or abolition of anti-takeover measures | 3.9% (12.5%) | 77 | |
| Other proposals related to capital policy (*3) | 11.2% (2.2%) | 5,061 | |
| Articles of incorporation | Opposition ratio (Previous year) | Total number of proposals | |
| Articles of incorporation | 4.6% (7.4%) | 796 | |
| Other proposals | Opposition ratio (Previous year) | Total number of proposals | |
| Other proposals | 7.3% (7.8%) | 5,625 | |

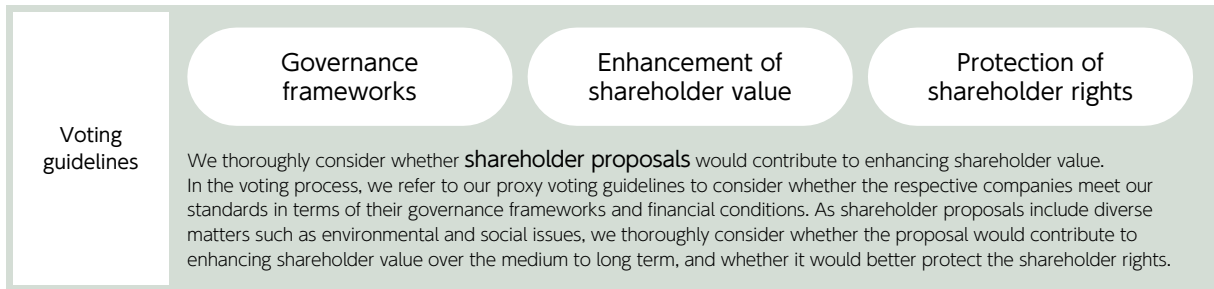
*1. Proposals on compensation policy, stock options plans, adoption and amendments to performance-linked compensation, and bonus plans.

*2. Proposals on mergers, transfer of business, equity swaps, equity transfers and company splits.

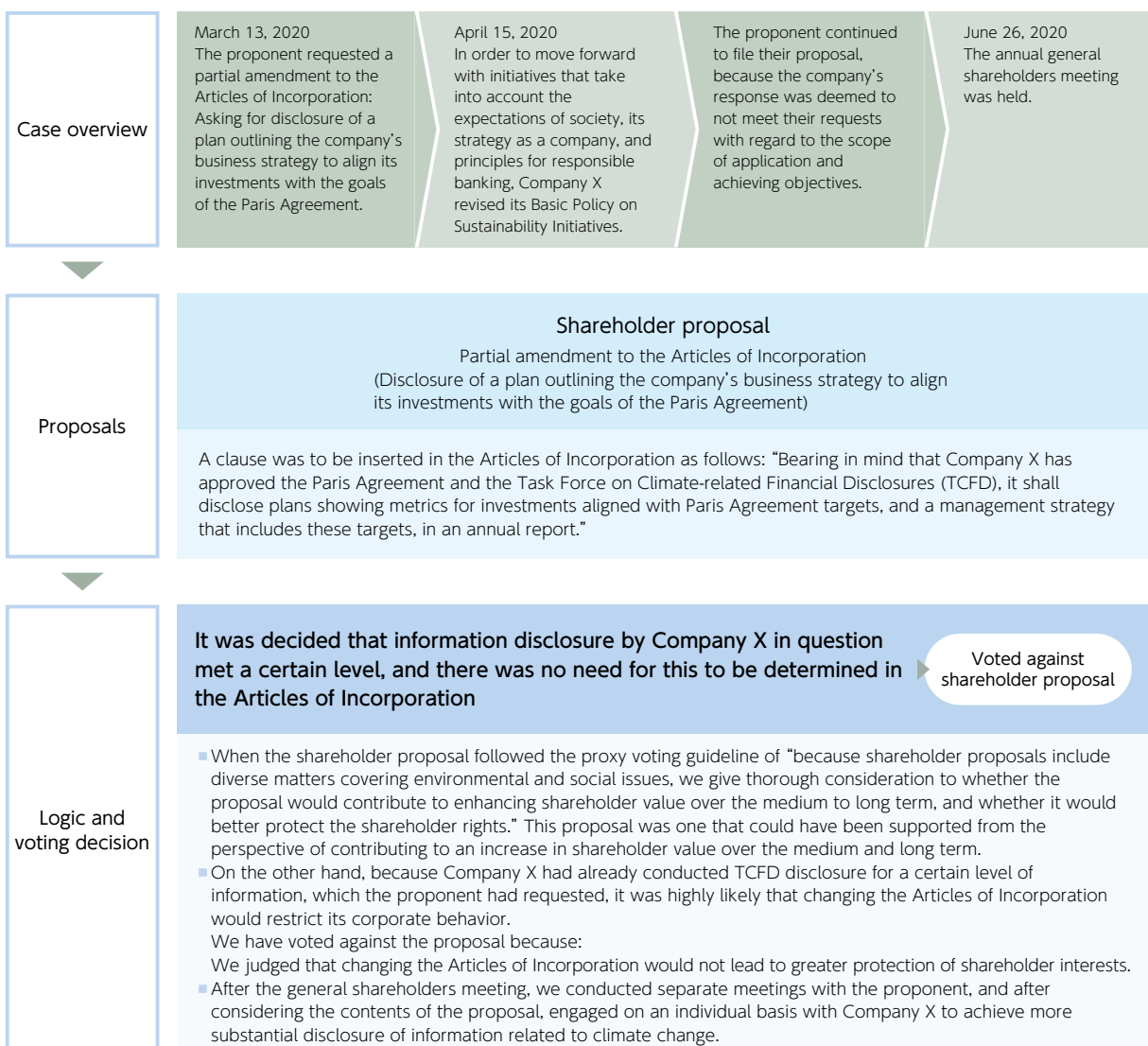
*3. Proposals on share buybacks, reduction on statutory reserves, third-party allotment, capital reduction, reverse stock splits and issuance of classified stock.

Examples of qualitative judgments on proposals

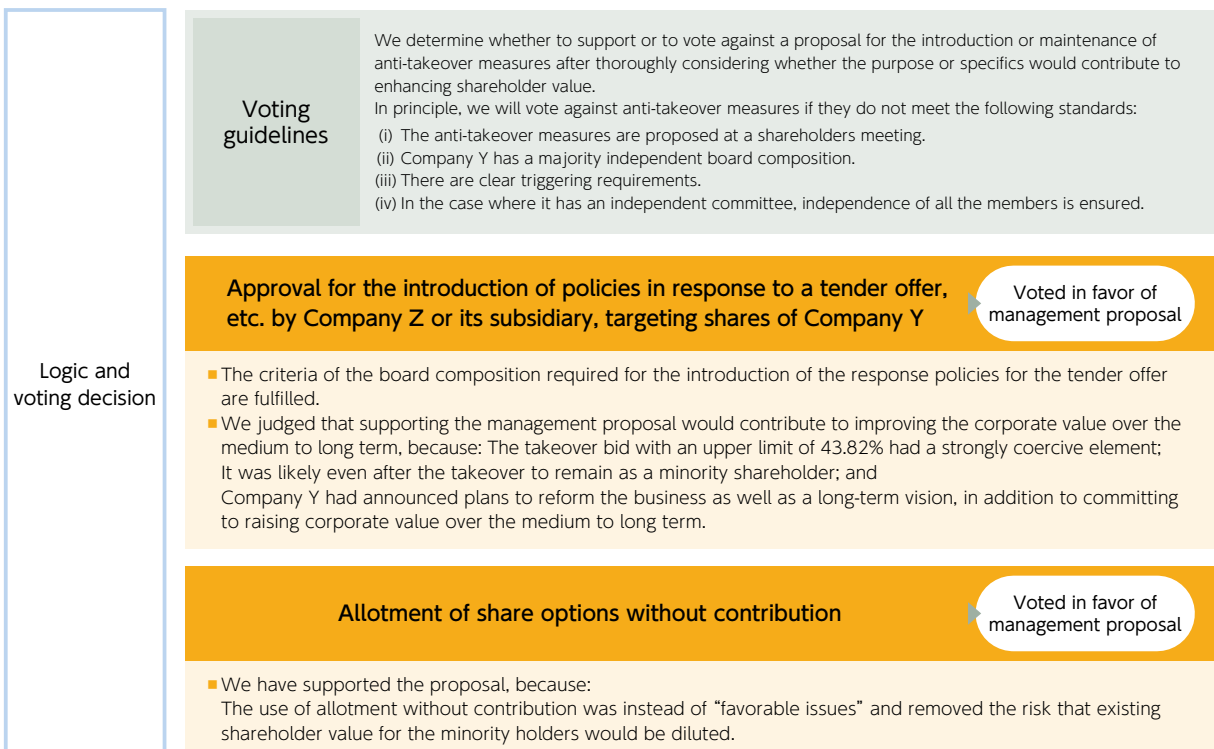
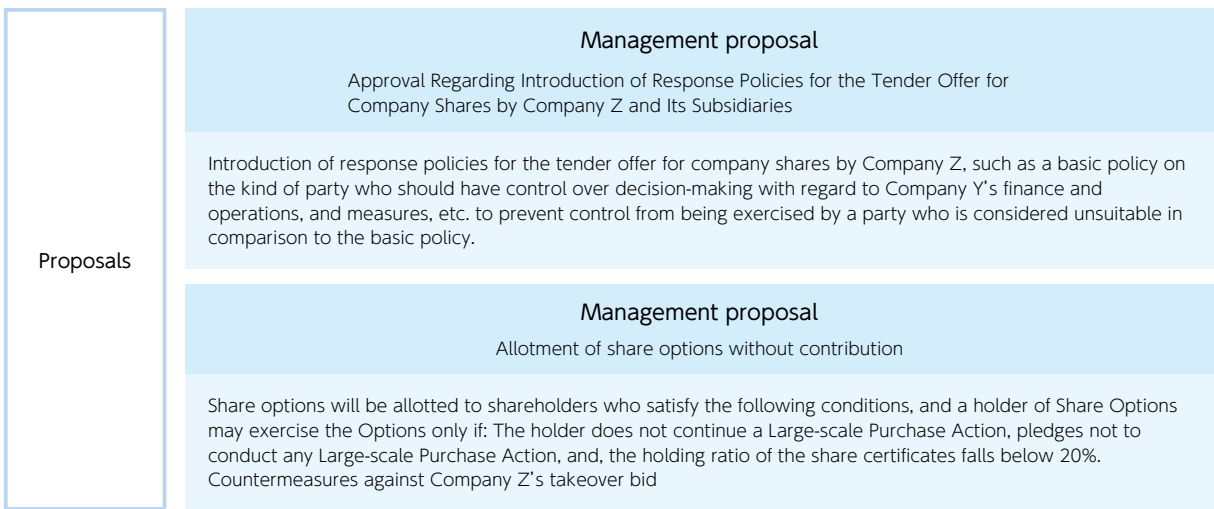
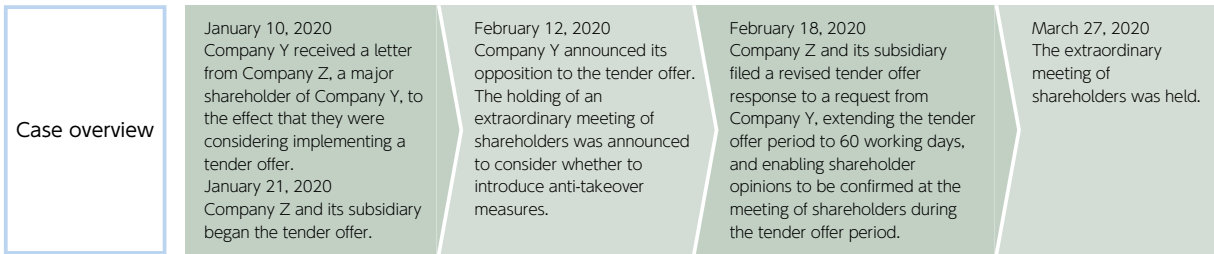
Resona Asset Management conducts proxy voting in accordance with its Global Governance Principles and proxy voting guidelines; here we present two proxy voting cases where qualitative judgments were to be made.



► Case 1: Company X



► Case 2: Company Y



Chapter 7

Assessment of Responsible Investment and Stewardship Activities



Annual assessment of Principles for Responsible Investment (PRI)

We enlist our annual PRI Reporting and Assessment process with respect to key performance indicators in terms of our PDCA (plan, do, check, act) cycle for responsible investment and stewardship activities. External assessment is carried out with the aim of bringing about qualitative improvement with respect to our responsible investment and stewardship activities through efforts that involve determining issues that must be addressed in order to maintain or improve assessments.

Signatory of:



Summary of PRI assessment scores



| | 2018 | 2019 | 2020 |
|---|------|------|-----------|
| Approach to responsible investment (Overall assessment) Strategy & Governance | A+ | A+ | A+ |
| Listed equities - ESG Incorporation | A+ | A+ | A+ |
| Listed equities - Active ownership | A | A | A |
| Engagement | A+ | A+ | A+ |
| Proxy voting | A | A | A |
| Fixed income | | | |
| Supranational bonds, sovereign bonds, government agency bonds, etc. | B | A | A |
| Bank debentures | B | A | A |
| Corporate bonds | B | A | A |

The PRI Reporting Assessment evaluates Resona Asset Management's responsible investment activities, and the organization's overall responsible investment approach. We have maintained an A+ score, the highest rank, since 2015.

Under PRI annual assessment, the PRI Secretariat assesses PRI signatory institutional investors particularly on their efforts to carry out responsible investment, thereby granting them scores on the basis of six performance bands (A+, A, B, C, D, E), with A+ being the highest possible score on a global basis.



Self-assessment of stewardship activities

As an institutional investor serving as an asset manager, Resona Asset Management has established its basic policy on responsible investment with the aim of explicitly stating its approach to helping enhance investment return of its clients from a medium- to long-term perspective. Accordingly, we carry out three specific initiatives (i.e., ESG incorporation, constructive dialogue and engagement, proxy voting). We also perform self-assessments on a regular basis in order to further heighten the level of such initiatives. These self-assessments correspond to the assessments described in Guidance item 7-4 of Japan's Stewardship Code.

Measures for self-assessment

Resona Asset Management's Policies regarding Japan's Stewardship Code stipulates that, "Resona Asset Management believes that appropriately performing self-assessment with respect to its policies and initiatives pertaining to its responsible investment is important. Under that premise, we will develop an effective assessment framework that involves taking on tasks such as precisely determining issues in conjunction with external assessment, while operating on the basis of self-assessment performed by members of the Responsible Investment Committee." Our Responsible Investment Committee plays an important role in fulfilling Resona Asset Management's responsible investment and stewardship responsibilities.

We administered a tiered-assessment and open-ended surveys where members of the committee furnished their thoughts with respect to: whether they feel that we are taking sufficient efforts with respect to initiatives required under respective principles and guidelines of the stewardship code; whether they feel that we maintain an organizational framework sufficient to carry out our stewardship activities; whether we are properly implementing the cyclical PDCA (plan, do, check, act) approach with respect to stewardship activity results, assessments and improvements; and, whether we are adequately operating the Responsible Investment Committee in terms of its function as a responsible investment control tower. The self-assessment period extended from July 2019 to June 2020.

In September 2020, the Responsible Investment Committee held discussions on recognized issues and means of addressing those issues, upon having received reports on progress made with initiatives to address issues of the previous year and survey findings.

Results of self-assessment

(i) Initiatives involving stewardship code

- We have consistently been awarded high marks by external assessors for appropriately carrying out our stewardship activities on the basis of clear guidelines.
- We encourage increased collaboration between the Responsible Investment Division, which seeks engagement from a very long-term perspective, and each division (Equity Investment and Fixed Income Investment), in the form of joint participation in dialogue with companies and the sharing of content and issues arising therefrom, as well as promoting further ESG integration. We are also deepening the relationships between the different investment divisions in order to implement engagement effectively.
- Our assessment shows that the discussions of the Responsible Investment Committee were generally effective. However, some are of the opinion that, given that the scope of responsible investment and related activities have both broadened and deepened, although in-depth discussions have taken place, development of understanding among members were insufficient. At the responsible investment meetings, we share information related to responsible investments, and deepen understanding of our activities.

(ii) Operations of the Responsible Investment Committee

- The Responsible Investment Committee reviews the proxy voting guidelines, deliberates on proposals that are difficult to judge, and discusses matters such as engagement policy. In addition, the state of ESG integration at each investment division and the engagement results are reported. High marks have generally been awarded for the appropriateness of meeting frequency, time allotted, and issues selected for discussion. Going forward, we will continue to work to facilitate more effective advice and supervision by the Committee, and to enable more efficient Committee operation.

(iii) Issues

- With the aim of more effectively carrying out Resona Asset Management's stewardship activities, we will consider and implement action plans geared to gaining a shared awareness of the issues listed as follows, and finding solutions.
 - Continuing to raise the effectiveness of ESG integration and of engagement, while improving our ability to explain such issues.
 - Continuing to further promote the sharing of information among the investment divisions so as to enable healthy discussion and highly effective supervision.

For policies regarding Japan's Stewardship Codes, please refer to the following. (In Japanese only)
<https://www.resona-am.co.jp/investors/ssc.html>



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