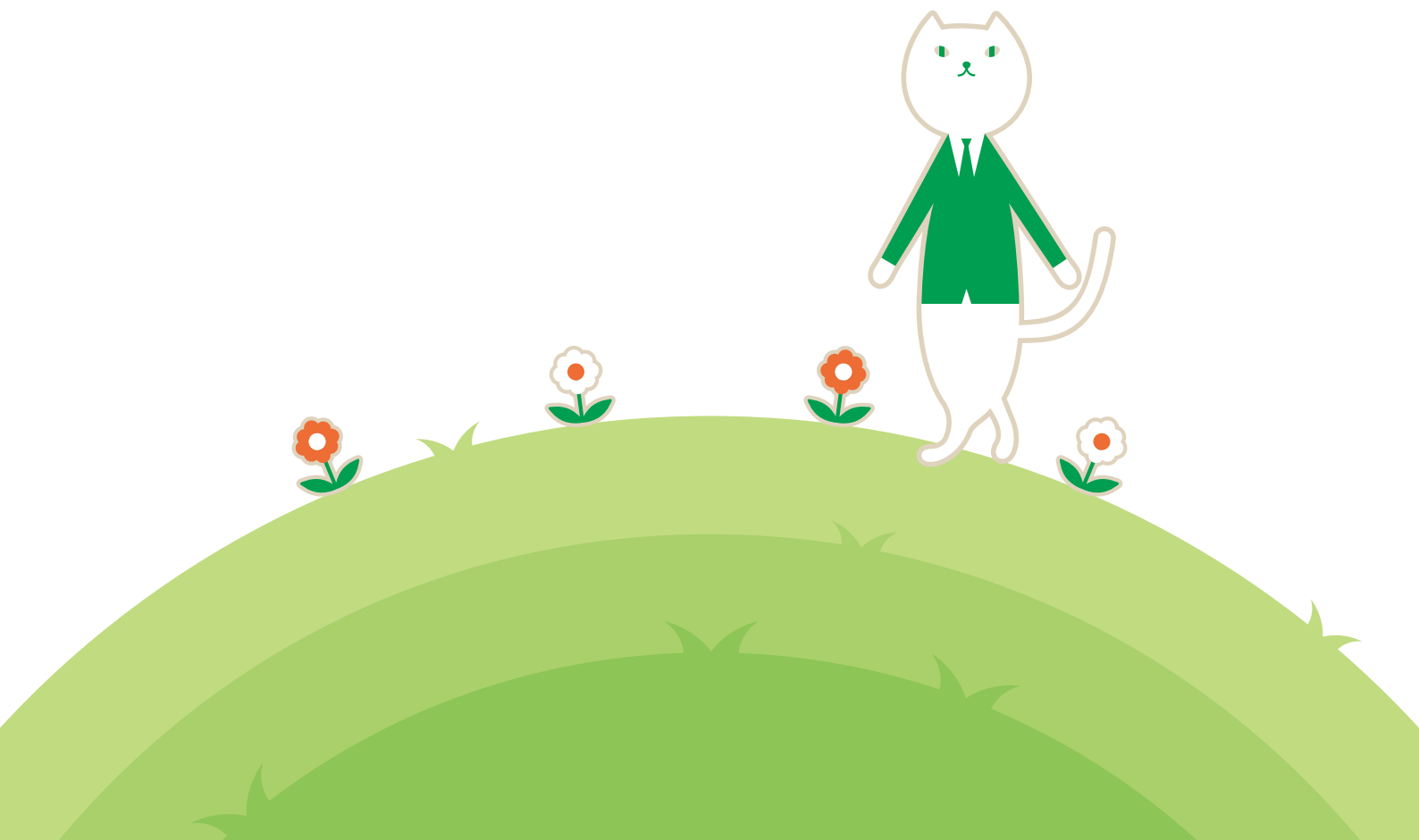


Resona Asset Management

STEWARDSHIP REPORT

2021 / 2022



Resona Asset Management

Resona Asset Management

Seeking to provide abundance and happiness to future generations in all we do

We are clearly aware that our reason for being, or “purpose,” is “to provide abundance and happiness to future generations as well as our own.”

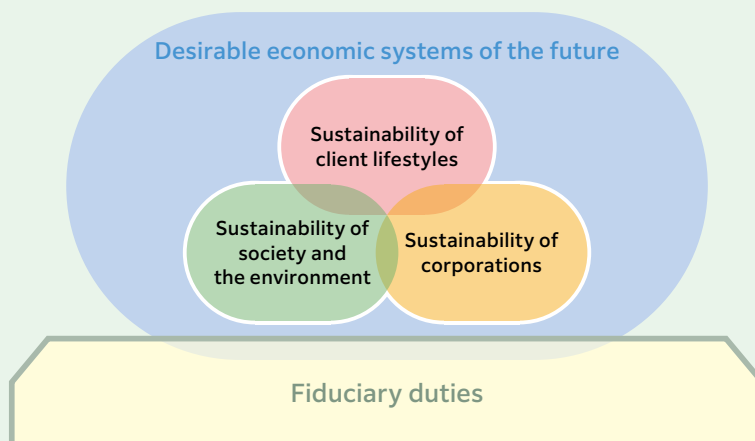
We are eager to one day share in the happy stories as our smiling clients declare “I was able to build up my assets through investment services provided by Resona Asset Management,” “Transactions and relationship with Resona Asset Management have brought me an affluent and happier post-retirement life” and “Through investing in products provided by Resona Asset Management, I was able to contribute to realizing a better society and environment for the sake of future generations.”

In order to make this happen and in order to “provide abundance and happiness to future generations as well as our own” at any time, we commit ourselves to acting as an asset manager focused on meeting genuine customer needs.

Furthermore, we hereby declare our intention to be “a responsible investor” and also to be “a long-term investor,” assisting our clients in their asset formation over the long term.

And to realize these above-mentioned objectives in a sustainable manner, we hereby make a commitment to reinforce our asset management capabilities continuously.

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

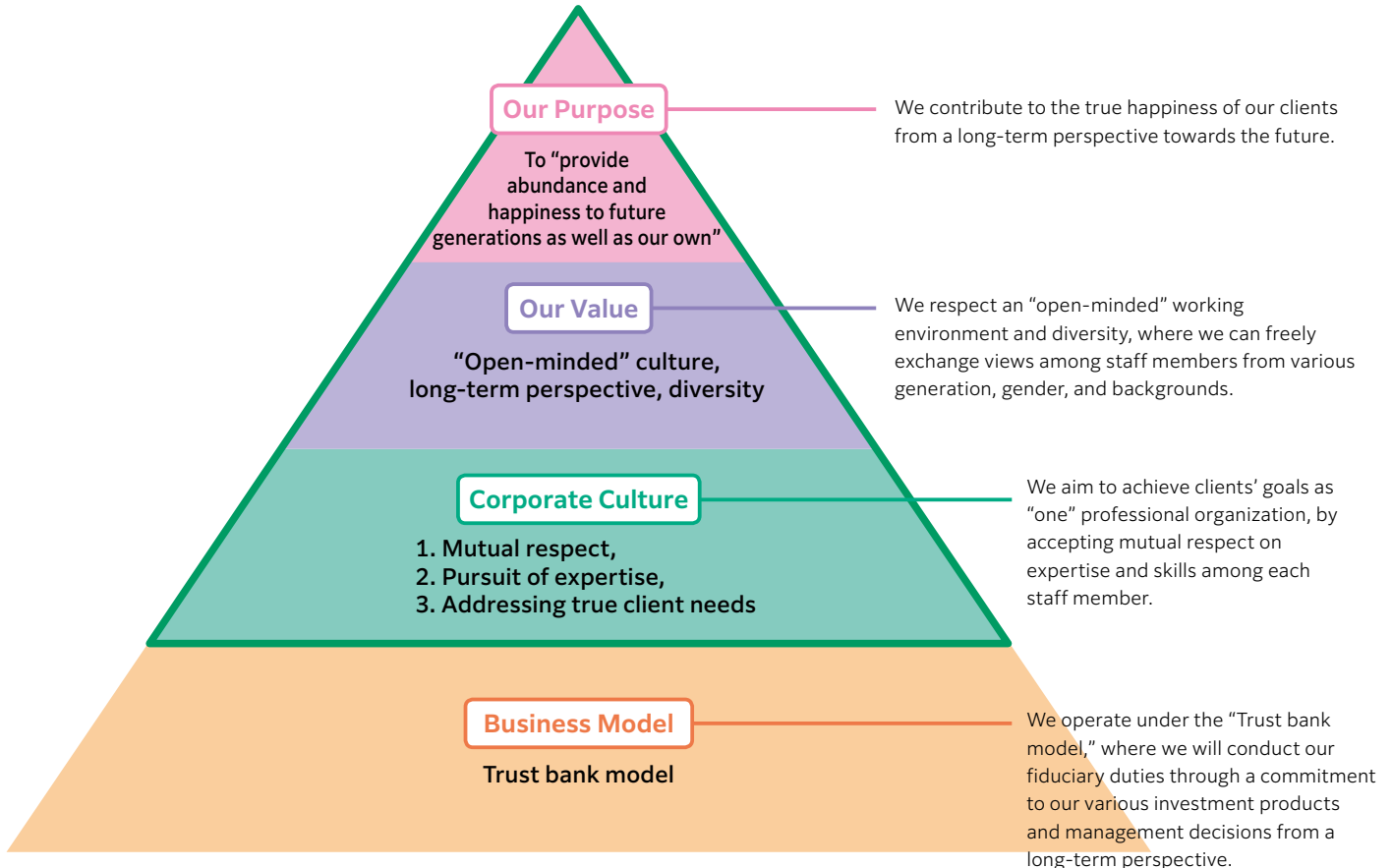


We believe that both investee companies with sustainable businesses, and a sustainable society and environment that constitutes the base for corporate activities, together help protect the assets entrusted to us by clients, and underpin the sustainability of client lifestyles.

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

Identity of Resona Asset Management

The purpose of Resona Asset Management is “to provide abundance and happiness to future generations as well as our own.” To realize this purpose we have explored:
Which “values” we cherish,
What sort of “corporate culture” we require, and
What kind of “business model” we should operate.
This year, we have articulated the “Identity of Resona Asset Management.”



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Message

Showing the corporate role of asset managers.

I wish to express my gratitude for your continued support to Resona Asset Management.

We have stated in our 2020/2021 Stewardship Report that corporations are playing an increasingly influential role in achieving a sustainable society. And we are aware of our responsibility to firmly support such aims through our involvement as an asset manager.

Looking back at the past year, it is apparent that humanity is facing increasingly severe and deeply intertwined challenges. With climate change being a primary factor, this also entails developments that include extreme global weather conditions and catastrophic natural disasters. Social issues such as human rights, widening disparities, and fragmentations, along with the COVID-19 pandemic are also becoming serious issues.

Conveying our long-valued identity and mindset

We believe that asset managers should show a clear corporate intention and conduct effective stewardship activities to overcome these challenges.

Last fiscal year, Resona Asset Management formulated its “Company purpose” based on that premise. In the current fiscal year, we also clarified the definition of our “value,” “corporate culture,” and “business model,” which we have followed when conducting management decisions.

This was because we have realized the necessity to cooperate with the investee companies and our global investor allies across different platforms to overcome various social issues. And we have also recognized the

importance of showing Resona Asset Management’s identity and mindset.

Nations taking part in the 26th UN Climate Change Conference of the Parties (COP26) held in Glasgow, United Kingdom, in November 2021 reached consensus regarding the “Glasgow Climate Pact,” an agreement on pursuing efforts to limit the rise in global temperatures to 1.5 degrees Celsius compared to the levels prior to the Industrial Revolution. Although this constitutes a step forward, the conference also underscored differing motives between developed and developing economies. Meanwhile, asset management companies and other financial institutions have apparently been conspicuously involved in the process.

This seems to indicate that financial institutions have been playing a greater role in helping bring about such outcomes for the sake of taking on important and deeply intertwined challenges.

Last year, we have conducted various measures from a long-term perspective. I would like to take this opportunity to introduce our three main measures.

Launch of the Impact Funds based on materiality issues

Firstly, the launch of the Impact Funds (Japan Equity Impact Investment Fund and Global Impact Investment Fund (Climate Change)).

In the 2020/2021 Stewardship Report, we have presented our policies to achieve more extensive impact management toward “ensuring a better future.”

Accordingly, we have launched the Impact Funds on both Japanese and global equities as one of our core investment strategies. Based on the material issues

intention has become an important

(materiality) to achieve the “future desirable economic systems,” we have set social impact targets on the Impact Funds:

- (1) “Achievement of a Japanese society oriented to sustainability and livability” under the Japanese equity fund, and,
- (2) “Climate adaptation and mitigation” under the global equity fund.

We place emphasis on ensuring that social outcomes and value creation narratives are shared with our clients and the investee companies. To such ends, we have focused on establishing the impact assessment methodology. We are planning to issue the Impact Report along with the investment return.

Effective engagements utilizing the AI tool

Secondly, we have conducted extensive engagements.

Resona Asset Management has broadened its scope of collaborative engagement through active participation in various platforms and collaborative engagements, to work effectively and proactively with the global investor allies. We have also developed an artificial intelligence tool that reads and assesses integrated reports. Use of this tool has enabled us to engage more effectively. We seek to ensure a “better future” through such initiatives.

Consideration on extensive client-oriented operations

Finally, we have established the fund governance committee meeting.

The “corporate type” investment trusts are dominant in the United States, and directors of the “investment

corporation” have direct obligation to clients/beneficiaries from the “fiduciary duty” perspective. Meanwhile, the “contractual type” investment trusts are dominant in Japan, where the “asset management company”/“trustor,” assumes direct obligation to clients/beneficiaries. We accordingly seek to develop more extensive client-oriented operations by building a framework for boards’ effective oversight to each fund in Japan.

In this Report, we will present specific details on our stewardship activities. Resona Asset Management will seek to achieve a sustainable society by diligently proceeding its stewardship activities as a responsible long-term investor. We aim to facilitate long-term value creation of the investee companies and to develop a sound capital market. Simultaneously, we will collaborate with our stakeholders to work on deeply intertwined and increasingly severe social issues.

Akihiko Nishioka

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



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 2021, assets under management were **approximately ¥34 trillion**, and there were around **110 asset management professionals**)
- Resona has a track record in asset management of **approximately 60 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

Resona Asset Management's investment philosophy & product strategy

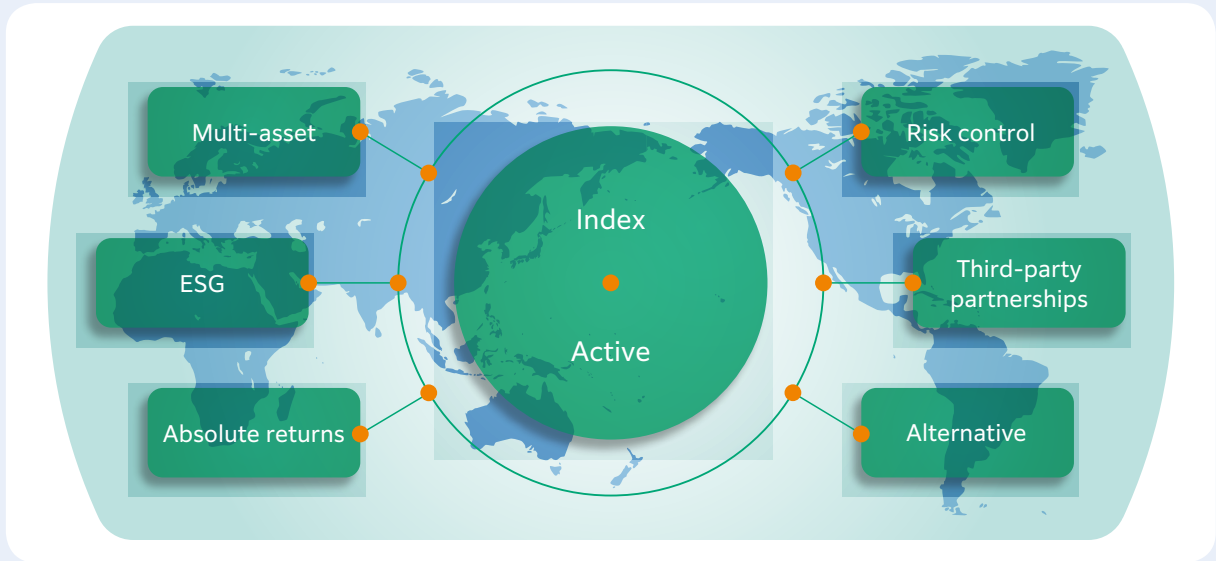
In order to act in the best interest of our clients and enable more prosperous lives, we believe that the most important factor for investment activity is to implement "global portfolio diversification" from long-term perspective.

In order to effectively provide a globally diversified portfolio, we think it is necessary to provide the following two major products:

- 1) The index investment strategy with high quality services.
 - 2) Active investment strategy capable of generating excess returns that are reproducible on long-term horizon.
- Amid the growing importance of asset management services, we will continuously conduct responsible investment activities as one of the universal owners.

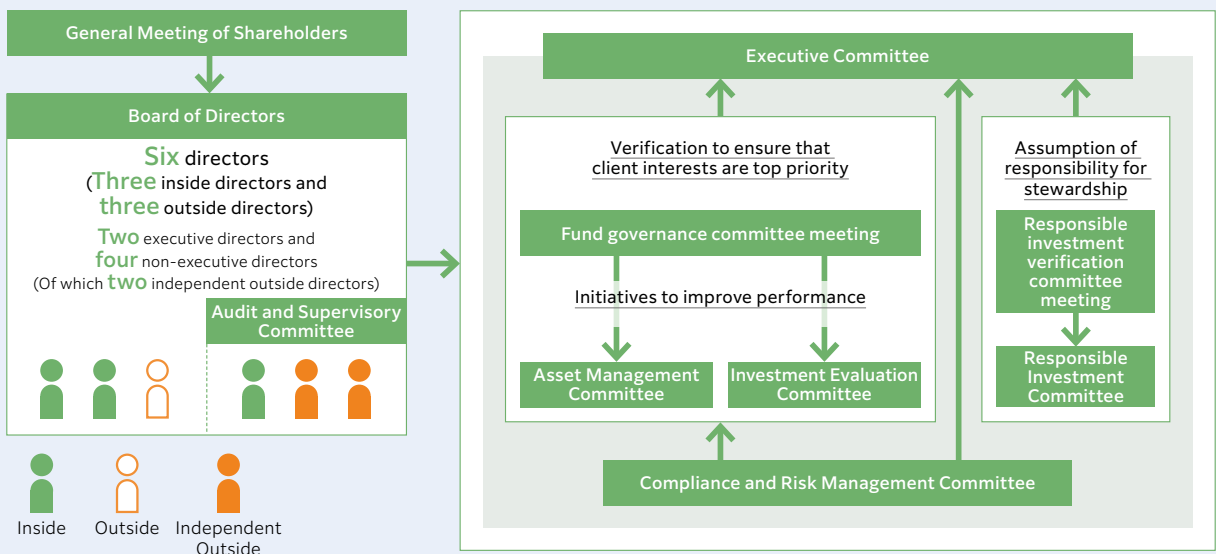
Extensive product lineup

Resona Asset Management seeks to balance addressing the increasingly diverse and sophisticated investment needs against the global portfolio diversification. To such ends, we offer an extensive product line up: Active and index strategies for traditional assets (equities, fixed income, and REITs), as well as multi assets and alternative strategies.



Resona Asset Management's corporate governance structure and distinctive advantages

- Point ①** The corporate governance structure has been further strengthened by ensuring the separation of business execution and oversight, and by appointing two independent outside directors.
- Point ②** We have established four discussion forums and three committees, while also having set up a framework for engaging in business execution in light of financial disclosures and monitoring that enlists external third-party perspectives.



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)

1,869

Number of engagement agendas

23

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.

30

Number of times participated in collaborative engagement platforms

12

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

Approx. 60 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 110 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.

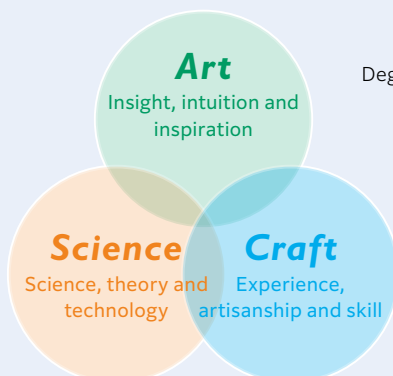
Asset management professionals

Approx. 110

Number of meetings held to share information related to responsible investment

46

Professionals must embody attributes in three realms

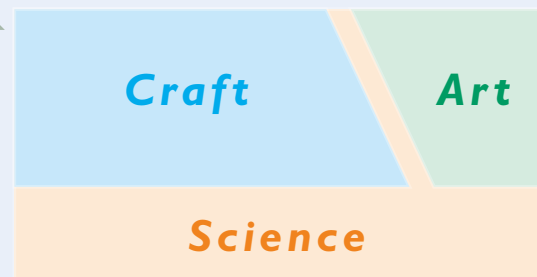


Degree of professionalism

Skills path

Qualifying as a professional

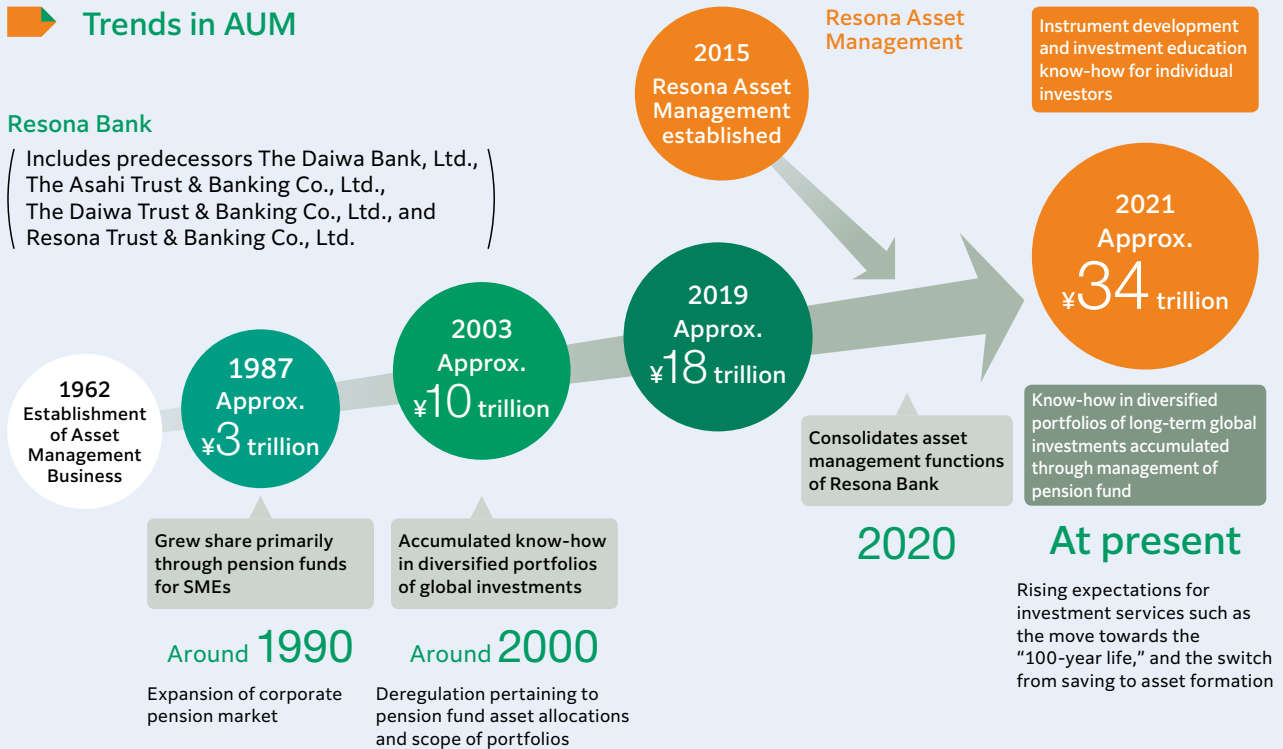
- A professional possesses knowledge mutually forged through hard work
- A professional is valued within and outside the organization
- A professional faithfully performs his or her job and takes initiative in making decisions



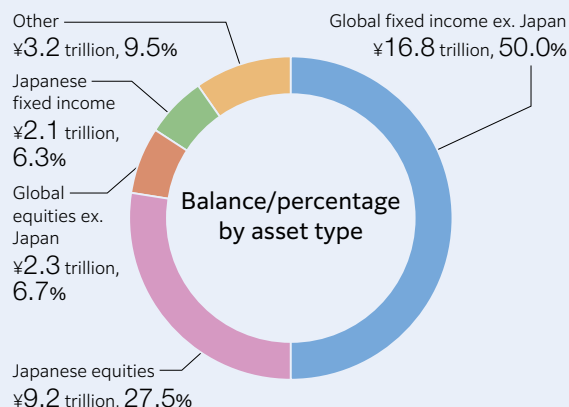
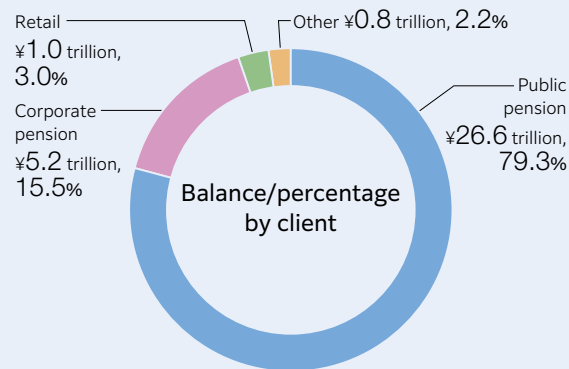
Trends in AUM

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.)

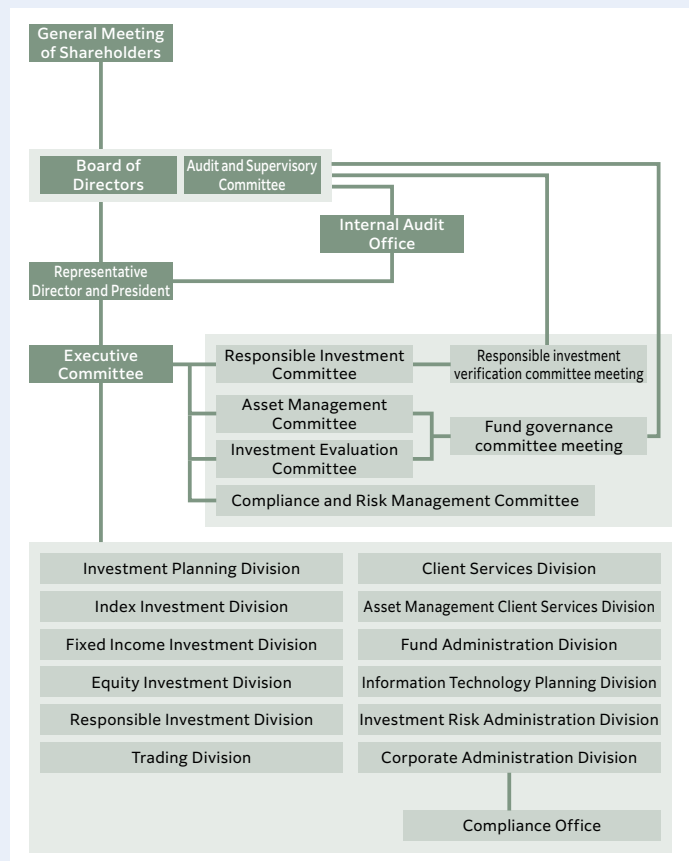


Composition of AUM



(As of March 31, 2021)

Organizational framework



Governance Framework for Responsible Investment and Stewardship Activities

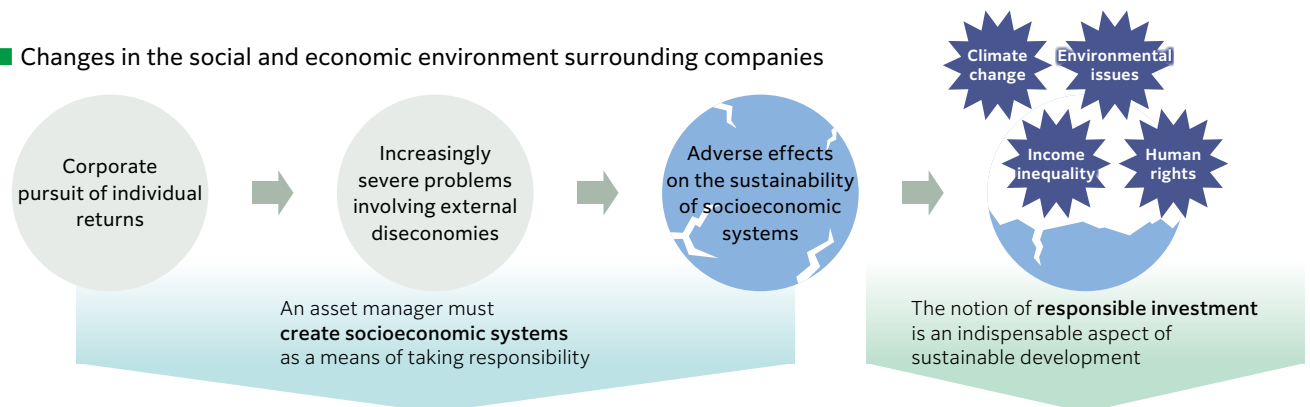


Resona's responsible investment

Changes in the social and economic environment, and roles of an asset manager (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.

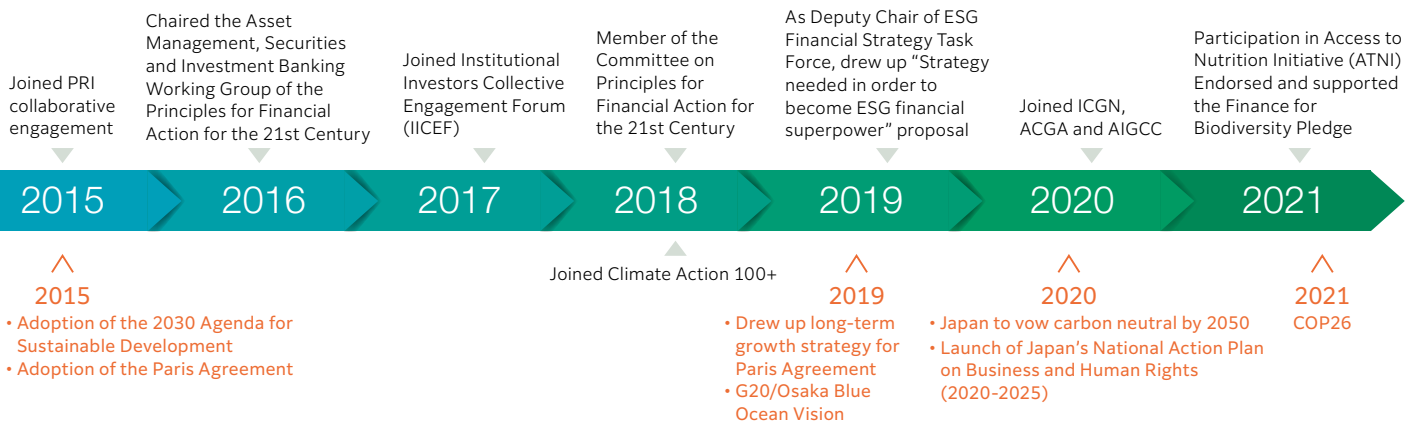
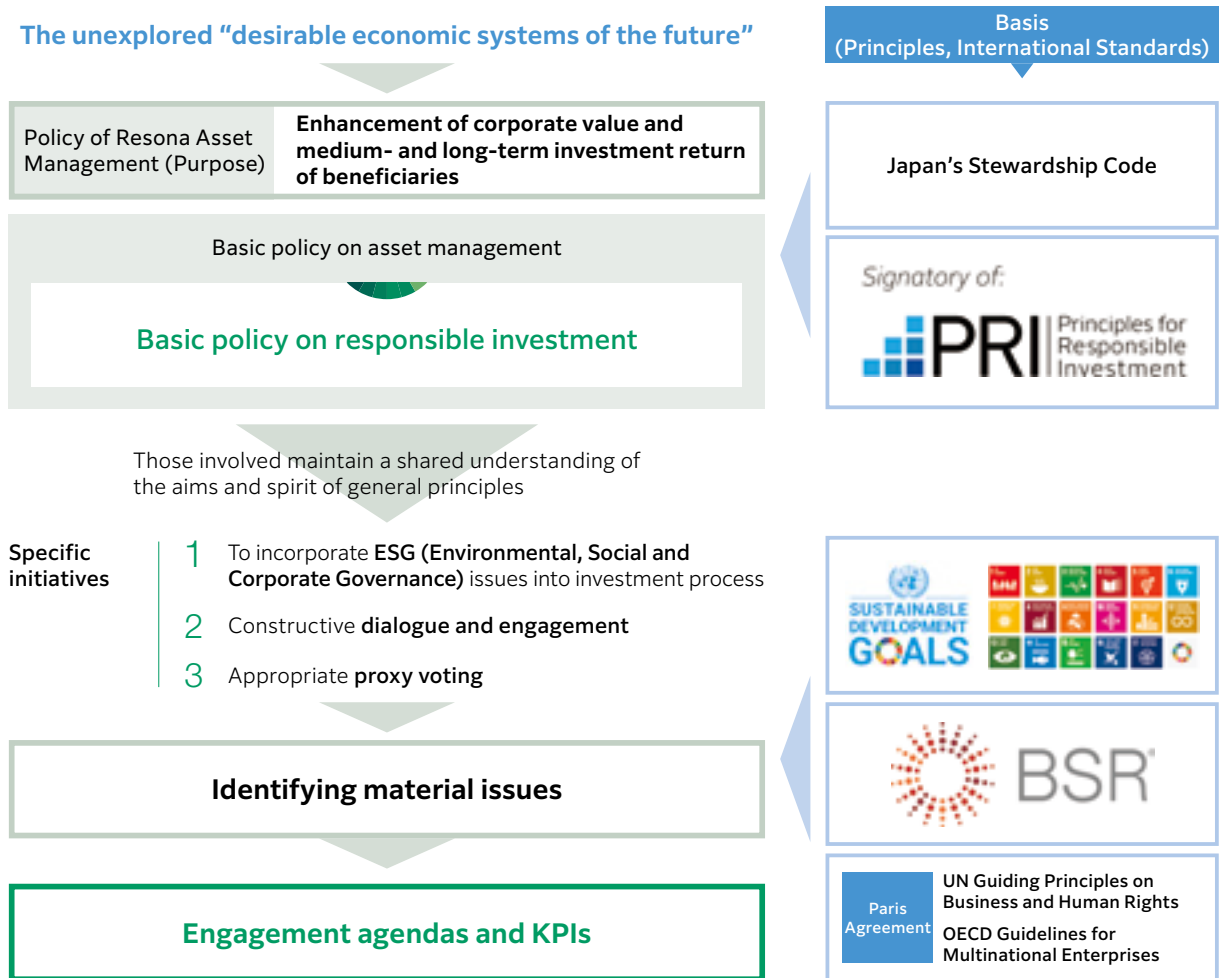
Formulate basic policy on responsible investment

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.



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 meeting

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

- **Topics covered at responsible investment meetings (March to November 2021)**
 - Participation in
 - The 2021 CDP Non-Disclosure Campaign and the Science-Based Targets Campaign
 - Access to Nutrition Initiative (ATNI)
 - Consideration given to becoming a member of the Finance for Biodiversity Foundation
 - Impact assessment on ESG bonds, Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy
 - 2022 revision of proxy voting guidelines, regarding: Japanese equities/independence of board composition

Responsible Investment Committee

The Responsible Investment Committee conducts basic policies on responsible investment, which are 1) ESG incorporation, 2) Constructive engagements, and 3) Proxy voting. 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 and general managers from the asset management and the compliance unit. The committee harnesses its members' collective experience and expertise to carry out stewardship activities to enhance positive contribution towards sustainable growth of the investee companies. The committee also considers ways to secure oversight on internal controls. Since May 2017, Professor Takeshi Mizuguchi, 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 to the activities of Resona Asset Management, based on his extensive knowledge.

The Responsible Investment Committee reports on the three efforts included in the "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 to the "basic policy on responsible investment"

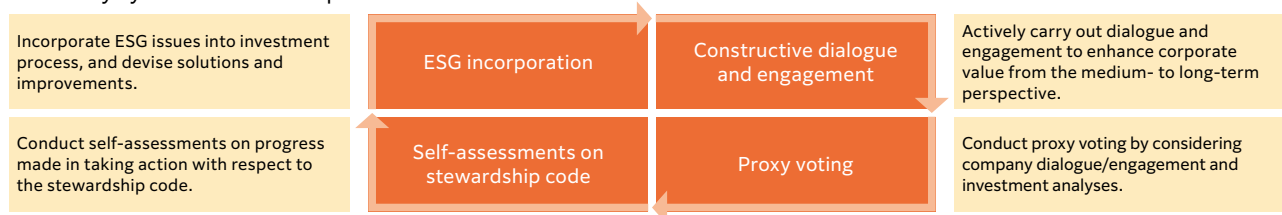
- Incorporation of ESG into investment process
- Constructive dialogue and engagement
- Resona's proxy voting

■ Primary items discussed and reported

- Amendments to proxy voting guidelines
- Voting decision to certain AGM proposals
- Voting results for Japanese and global equities
- Engagement progress and plans
- Stewardship activities and self-assessment
- 2021 PRI Reporting

We aspire to fulfill our stewardship responsibilities to a greater extent by incorporating the following elements derived from the Responsible Investment Committee, which are: Discussions, suggestions for improvements, and self-assessment on stewardship activities.

■ Activity cycle to enhance corporate value



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: 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 (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 eighth committee meeting (held in February 2021) Changes to proxy voting guidelines for Japanese and global equities
 - The ninth committee meeting (held in August 2021) Proxy voting results for shareholders meetings during July 2020 to June 2021
- The suitability of the topics subject to review was verified at the responsible investment verification committee meeting sessions listed above.

Framework for governance in order to make client interests top priority

1 Fiduciary duty

Basic policy

As a fiduciary entrusted by customers, we will, with our high specialization and ethics, continuously provide high-quality financial services with customers' best interest in mind, while placing the greatest value in the joy and happiness of customers.

We will strive to provide truly customer-oriented, high-quality financial services and pursue the most optimal profits for customers to continuously grow our customer base and further enhance the existential value of the Resona Group.

High-quality asset management

- 1
 - We will pursue stable medium- to long-term added-value through consistent investment strategies based on careful research and analysis in order for customers to benefit from the performance of diversified investments made with a long-term time horizon. At the same time, we will strive to provide low cost, high-quality asset management services in a sustainable manner.
 - We will enhance our specialized skills through daily self-refinement and pursue profits for customers with a high level of ethical values and integrity without being satisfied with the status quo, aimed at achieving higher quality assets under management and a robust asset management structure.
 - We will aim to be a group of professionals that live up to the trust of customers by facilitating two-way communication across organizations.
- 2
 - We will act as a responsible institutional investor, including holding constructive dialogue for improving the corporate value of portfolio companies and encouraging their sustainable growth, in order to pursue the profits of customers (beneficiaries).
 - We endorse and embrace the principles of the "responsible institutional investor" in Japan's Stewardship Code and share our commitment to acting as a responsible institutional investor.
 - We will strive to maximize added-value through the improvement of corporate value and sustainable growth with a medium- to long-term perspective based on sufficient understanding and analysis of not only the financial information of portfolio companies, but also non-financial information as well, including response to Environment, Social and Corporate Governance (ESG) issues.

Note: Excerpt from the "Resona Basic Policy on Fiduciary Duty" of the Resona Group

Implementation policy

For the sake of making our clients' lives more affluent and happier (i.e. to realize outcomes in the best interests of our clients), we Resona Asset Management believe that, with respect to investment management, the most important point is to maintain diversified portfolios of long-term global investments.

We believe that, to provide diversified portfolios of long-term global investments effectively, it is necessary to offer "active investment capable of generating reproducible excess returns in the long run" as well as "high-quality index investment." Moreover, we will furthermore promote responsible investment activities incorporating the concept of universal ownership amid the growing importance of asset management.

Providing services suitable to our clients

In establishing funds, we aim to provide our clients with long-term fund management on a continuous basis. To such ends, we establish carefully-selected funds that are, we believe, able to satisfy real needs of our clients, and we do not add new funds such as of overlapping characteristics with existing ones or based on passing trends to our fund line-up recklessly.

In addition, when establishing funds, the Asset Management Committee engages in discussions upon having defined the intended client demographic and rationale thereof. After the establishment, the fund governance committee meeting consisting of outside directors verifies whether or not the fund maintains the characteristics intended at the time of the fund establishment.

Note: Excerpt from the "Policy on Implementation of Customer-Oriented Business Conduct" of Resona Asset Management

Active investment

We seek to generate higher excess returns based on the solidly designed philosophies by formulating investment procedures and monitoring investment effectively.

Balanced investment

We seek to achieve performance aligned with risk and return expectations of our clients through asset allocation strategies drawn up based on continuous market research and analysis.

Index investment

We are persistently seeking greater efficiency in fund operations and engaging in research on investment approaches in order to provide top-quality products at lower cost.

Responsible investment



We contribute to increasing the value of investee companies and raising the level of the overall equity markets through ongoing dialogue and opinion exchange with investee companies. We seek to maintain an appropriate number of engagement activities with a focus on the quality of such activities so as not to impose excessive burdens on companies.

2 Fund governance committee meeting

Overview of the fund governance committee meeting

In April 2021, Resona Asset Management established the fund governance committee meeting exclusively consisting of outside directors for the purpose of verifying adequacy of governance with respect to individual funds managed by the Company.

Purpose	In managing trust assets and other investments, we verify from external third-party perspectives that client interests are assigned top priority with respect to establishing and managing funds, with the aim of strengthening governance such as management on conflict of interest.
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Members	Number of attendees	Operations
 Three outside directors Chairman: Director Otsuki	 President, executive officers responsible for respective divisions and office of the Investment Planning Division, Responsible Investment Division, Client Services Division, Investment Risk Administration Division, and Corporate Administration Division's Compliance Office, as well as relevant individuals nominated by the committee chairman	Schedule: Generally held twice a year (May and November) Secretariat: Investment Risk Administration Division
Matters for verification	Characteristics of newly established funds (at every meeting) The following five matters and appropriateness of discussions are subject to verification from a client-oriented perspective.	Investment quality of each fund (at every meeting) With respect to management of each of the funds, the following five matters and the appropriateness of discussions are subject to verification from a client-oriented perspective.
	(i) Background and purpose of establishment (ii) Target clients (iii) Appropriate scale of investment (iv) Anticipated risks and returns (v) Trust fees	(i) Investment performance (ii) Estimated tracking error (iii) Fund balance (iv) Number of investment securities (v) Turnover ratio
	Management policy on funds with less-than-expected balance (first half of fiscal year)	
	Fee levels of public funds (latter half of fiscal year)	

Asset Management Committee	
The objective of Asset Management Committee is to facilitate appropriate management of trust assets and other investments as well as client-oriented planning of investment instruments through engaging in discussions and reporting with respect to important matters concerning management of investment trusts and execution of investment advisory services, and also with respect to important matters of planning and control regarding investment trusts as investment instruments.	
Chairman	President
Members	President, and executive officers responsible for the Investment Planning Division, Responsible Investment Division, Fund Administration Division, Investment Risk Administration Division, and Corporate Administration Division's Compliance Office
Schedule	Quarterly and as necessary (20 scheduled and ad hoc sessions held in FY2020)
Secretariat	Investment Planning Division

Investment Evaluation Committee	
The objective of the Investment Evaluation Committee is to contribute to managing trust assets and other investments appropriately and maintaining and improving investment quality from the client perspective through reporting and discussing investment management, investment performance and other issues of trust assets and other investments.	
Chairman	President
Members	President, and executive officers responsible for the Investment Planning Division, Responsible Investment Division, Investment Risk Administration Division, Corporate Administration Division's Compliance Office, Client Services Division, and Asset Management Client Services Division
Schedule	Quarterly and as necessary (Four scheduled sessions and no ad hoc sessions held in FY2020)
Secretariat	Investment Risk Administration Division

3 Management on conflict of interests

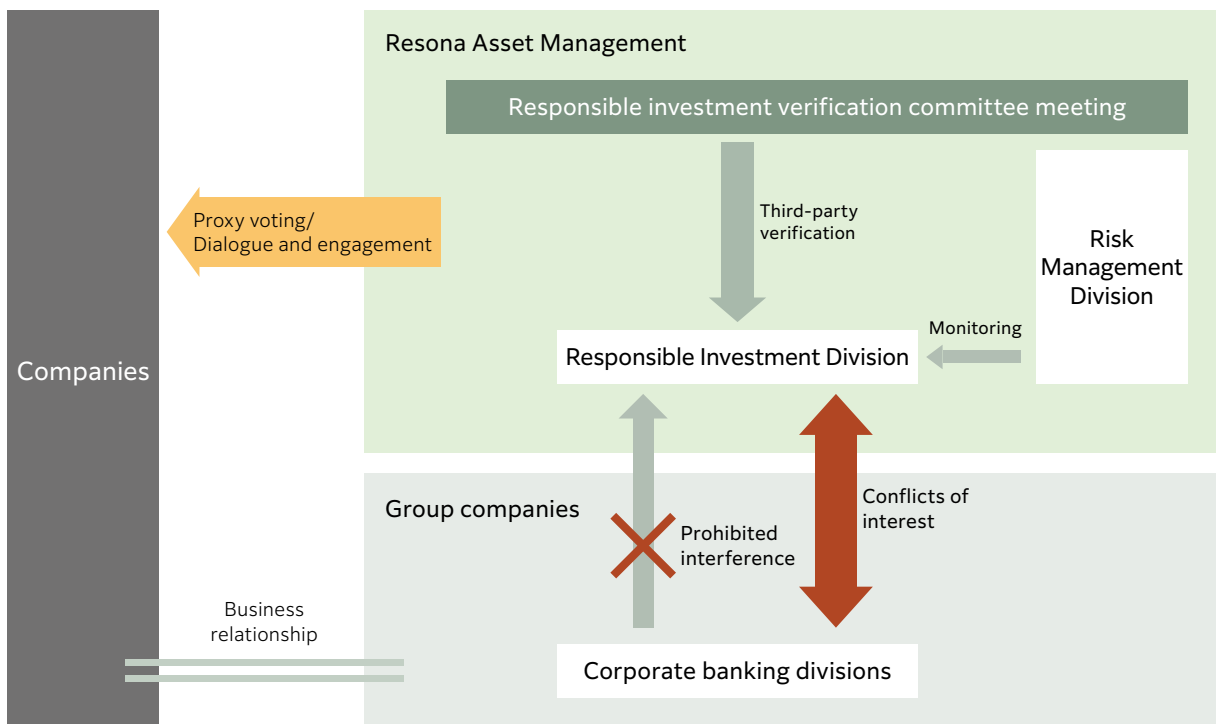
In carrying out responsible investment, Resona Asset Management should be mindful of certain types of transactions that are prone to conflict of interest. Such transactions conceivably include situations that involve proxy voting with respect to shares owned through trust assets and other investments,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

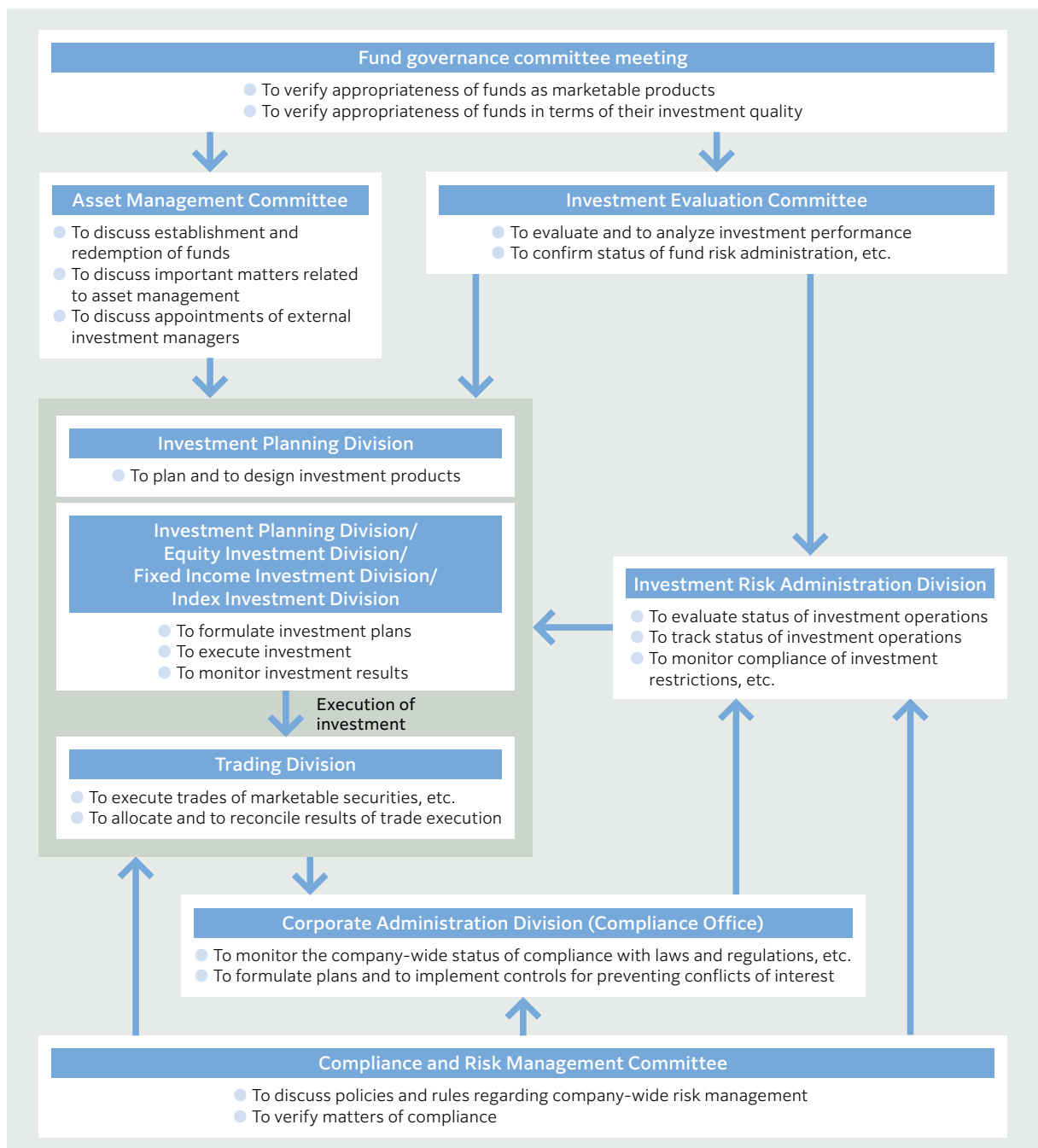
- Interference by the corporate banking divisions of group companies is prohibited and personnel reassignments are subject to restrictions
- Proxy voting activity is monitored by the Risk Management Division
- Compliance Division and Risk Management Division act as member of the Responsible Investment 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) 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



4 Governance frameworks

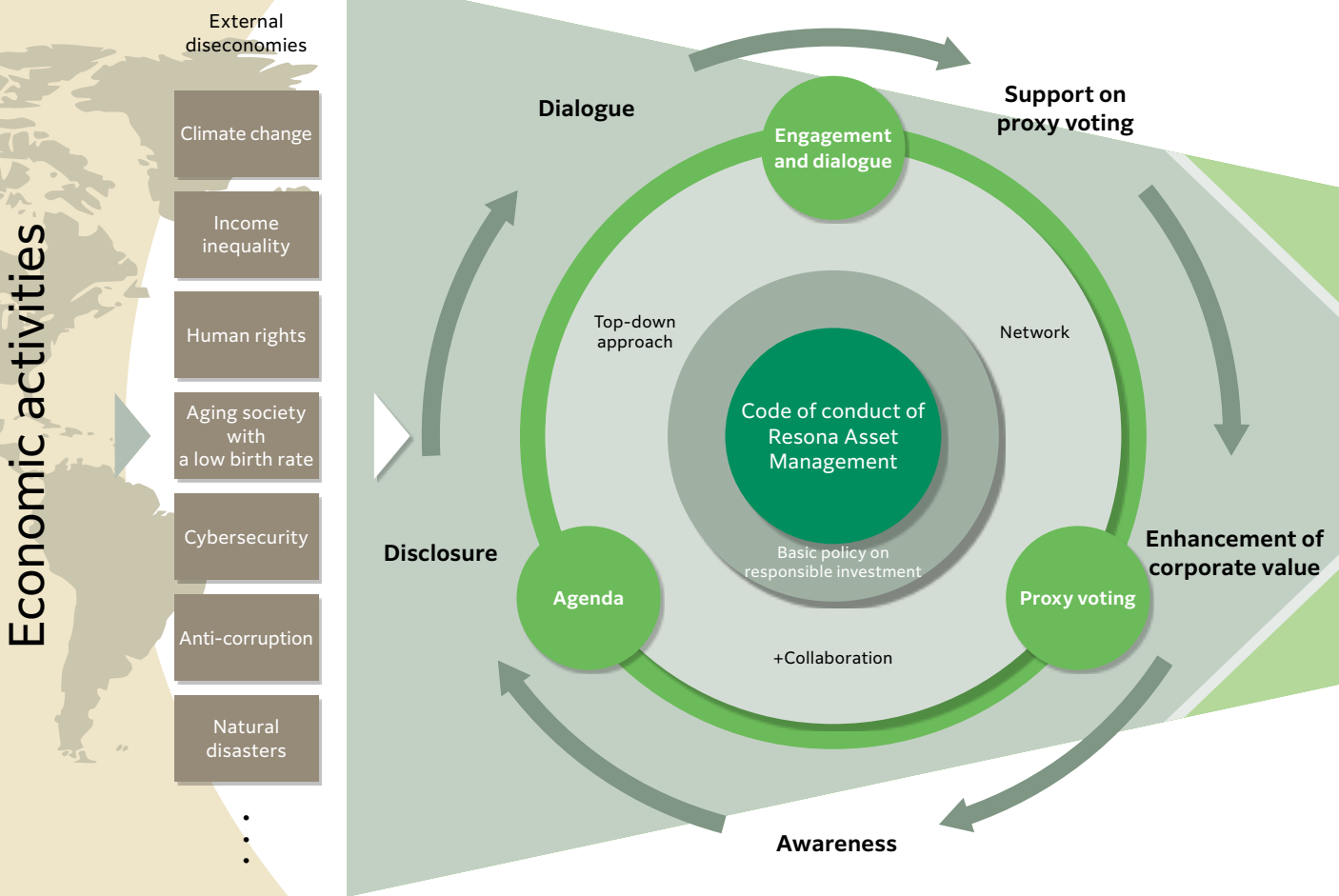
- Experienced asset management professionals belonging to each investment division take charge of managing trust assets.
- We ensure substantial transparency and accountability in managing trust assets by verifying investment activities and performances of the respective investment divisions, proxy voting activity, and others. We accomplish this through monitoring performed by our internal administration divisions and various internal committees responsible for investment risk administration and compliance.
- We build governance frameworks that assign top priority to client interests through establishing the fund governance committee meeting and the responsible investment verification committee meeting exclusively consisting of outside directors and outside experts, and the verification process with respect to the appropriateness of establishing and managing individual funds and also with respect to the appropriateness of stewardship activities from an external third party perspective.



Responsible Investment and Stewardship Activities



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

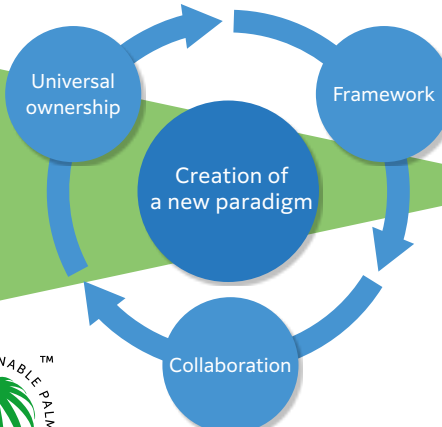


Signatory of:



INTEGRATED REPORTING <IR>

Enhancement of medium- and long-term return



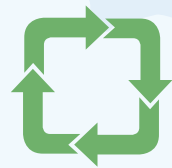
New form of capital markets

Unexplored economic system

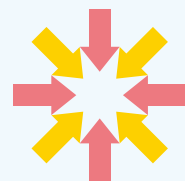
Inclusive socioeconomy



Sustainable environment



Corporate culture, purpose



Resona Asset Management’s goal

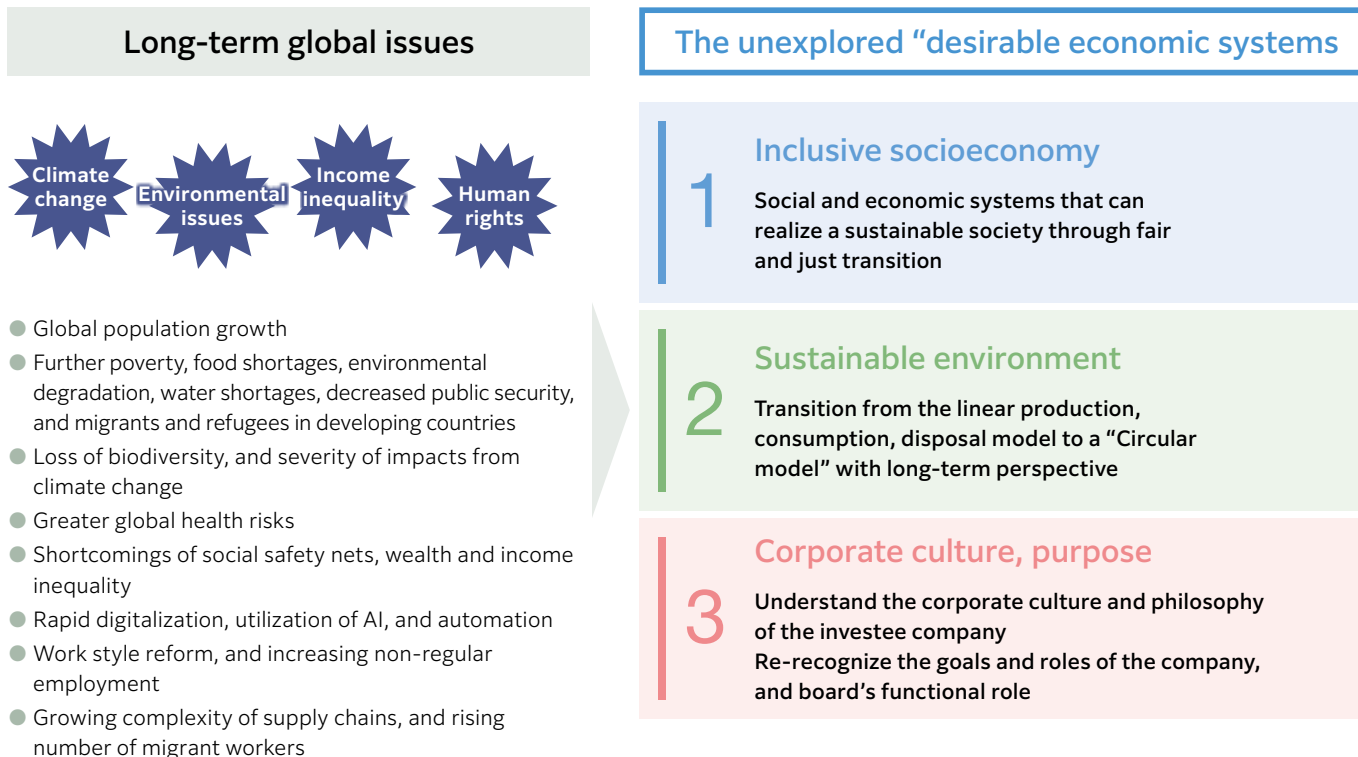
New forms of capital markets and unexplored economic systems

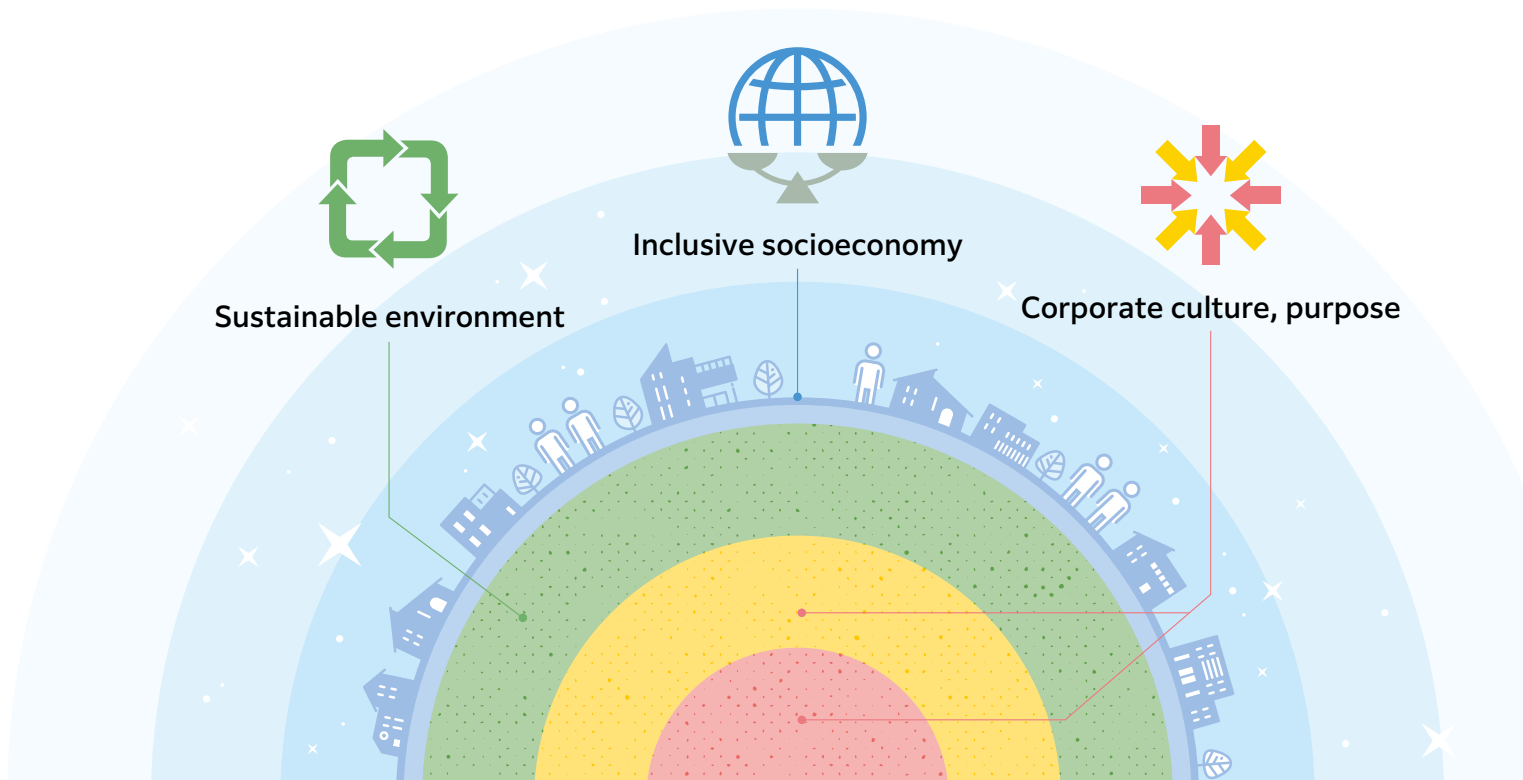
Resona Asset Management’s contribution to the creation of **new forms of capital market** is based on the following approach.

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.
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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.





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

- Healthy and safe lifestyle (Sustainable food supply chain) P62
- Address child labor and forced labor issues in supply chain management, improve working conditions P66-67
- Diversity and inclusion P68
- Workplace health and safety, employee wellbeing P70
- Biodiversity and forest conservation P60-64
- Effective utilization of resources, and resource circulation (marine plastic waste) P65
- Climate change P69
- Corporate ethics/Fair business conduct and anti-corruption P68-71

Future materiality analysis for making a change toward a desirable future

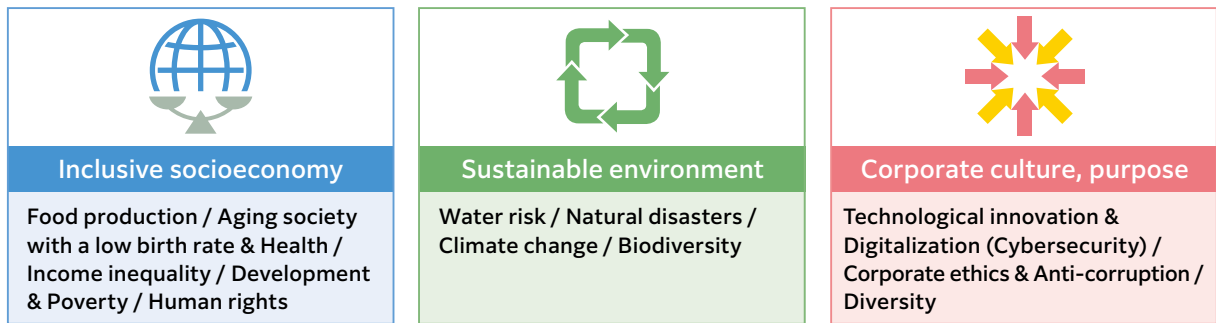
Materiality based on long-term scenario

In order for stewardship activities of Resona Asset Management to lead to the realization of “desirable economic systems of the future,” we believe that it is necessary to identify desirable economic systems for the future and the associated issues they entail, and then bring about change in the direction from the probable future to the desirable future. To this end, in FY2021, we have drilled down into the materiality analyses conducted during FY2020, and conducted an investigation of our materiality based on a long-term scenario.

Based on three future scenarios:

the Conventional Development Model, the Regional Rivalry Model, and the Sustainable Model, we discussed how social issues would change in relation to the unexplored “desirable economic systems of the future,” namely (1) inclusive socioeconomy, (2) sustainable environment, and (3) corporate culture, purpose. As a result, we identified issues to be important in the future.

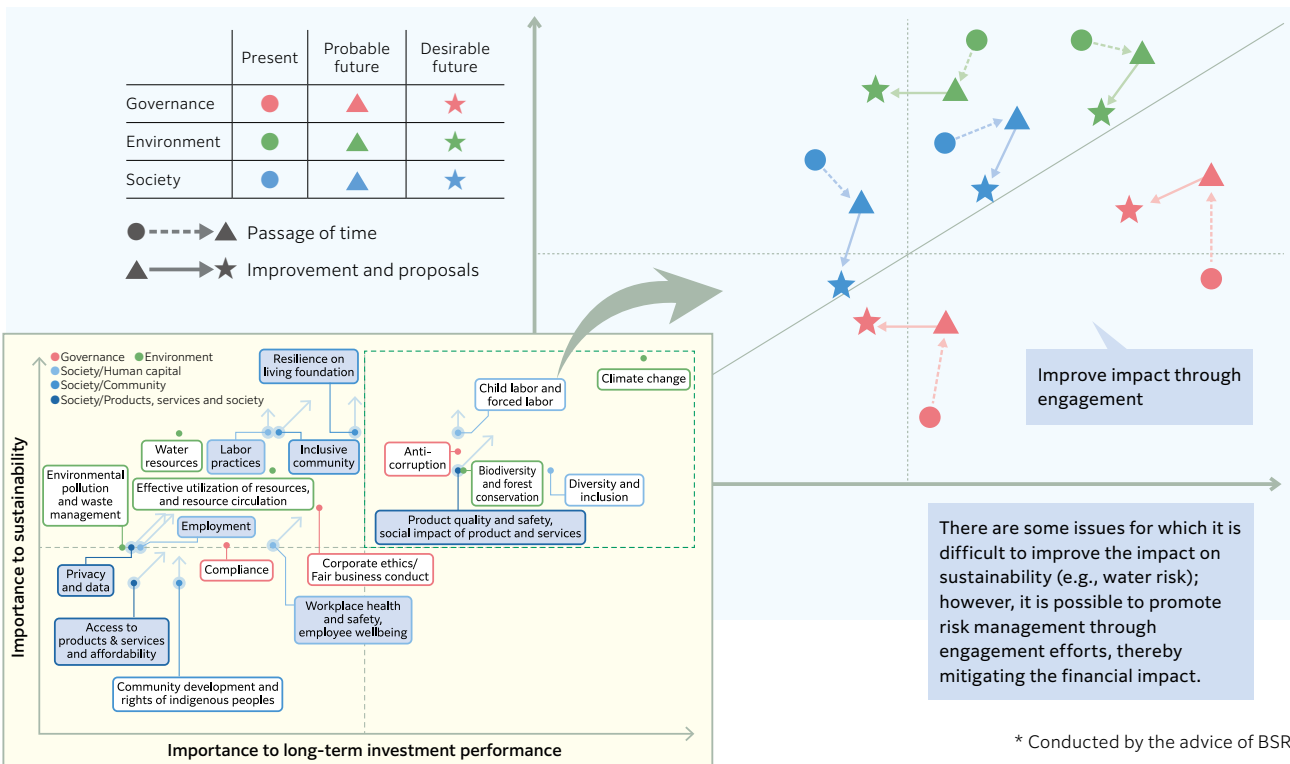
Issues to be examined for analysis of future materiality



Adding a time axis to Materiality Matrices

Previously, we assessed each ESG issue along two axes:

importance to sustainability and importance to long-term investment performance. Now, through the long-term scenarios analysis, we have attempted to add a time axis. An image of the assessment is presented below.



Long-term scenario analysis



- Emphasis on economic growth
 - High technology development
 - Digitalization
 - Free trade fueled by carbon-intensive fuels
- This world places increasing faith in innovation and participatory societies to produce rapid technological progress. Conversion to capitalist values that assess the value of potential for innovation.

Conventional Development Model (IPCC SSP5 baseline)

Projected implications

2050 global population:
Low projection of **8.5 billion people**

Global GDP growth:
Rapid economic growth at **5% CAGR**

2050 global GHG emissions increase:
75% or more (compared to 2020)

Temperature rise by the end of this century:
High at **5°C, but full adaptation measures for natural disasters**

Material issues

- Human rights for the socially vulnerable
- Safety and quality of new technologies
- Biodiversity
- Land rights
- Disparity in access to technology
- Human rights violations due to AI ethics and monitoring



- High population growth
- A low international priority
- Low technology development
- Slow economic growth
- Inequalities persist or worsen (over time)
- Delayed development of systems
- Conventional shareholder capitalism will be mainstream
- Environment and social goals not a priority

Regional Rivalry Model (IPCC SSP3 baseline)

Projected implications

2050 global population:
10 billion people
Notable increases in India and Sub-Saharan Africa

Global GDP growth:
Low at **2% CAGR**

2050 global GHG emissions increase:
30% or more (compared to 2020)

Temperature rise by the end of the century:
4°C
Serious impacts will be unavoidable

Material issues

- Natural disasters
- Poverty
- Access to resources
- Access to food
- Water risk
- Business conducted in countries with conflict/high risk
- Sustainable procurement
- Human rights of workers



Rapid advance in systematic changes emphasizing sustainability. The world shifts gradually, but pervasively, toward a more sustainable path, emphasizing more inclusive development that respects perceived environmental boundaries.

- Global cooperation
- Internalization of social and environmental impacts into the market economy
- Development based on co-creation
- Pivot to stakeholder capitalism

Sustainable Model (IPCC SSP1 RO1.9 baseline)

Projected implications

2050 global population:
Low projection of **8.5 billion people**

Global GDP growth:
Gradual growth of **4% CAGR**

- CO₂ emissions cut to **net zero** around 2050
- Universal adoption of **carbon tax**

Temperature rise by the end of the century:
Within **1.5°C**

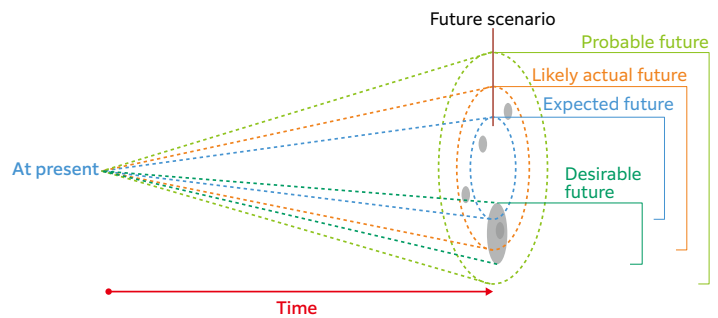
Material issues

- Tolerance for the burden of sustainability issue solutions on economic society and fair and just transition
- Governance
- Partnership
- Promotion of new competition to drive creation of innovative technologies

- The SSPs have been used to help produce the IPCC Sixth Assessment Report on climate change, published on August 9, 2021.
- Shared Socioeconomic Pathways (SSPs) are scenarios of projected socioeconomic global changes up to 2100. They are used to derive greenhouse gas emissions scenarios with different climate policies.

Discussion based on future scenarios

In the discussion based on “future scenarios,” our expectation of the “probable future” was closer to the Conventional Development Model and the Regional Rivalry Model, where: The future generations will struggle to achieve current levels of abundance and happiness, although some elements of the Sustainable Model were foreseeable. From a long-term perspective, sustainability issues may exceed the responsiveness of society, which could affect business continuity and resilience of the whole value chain.



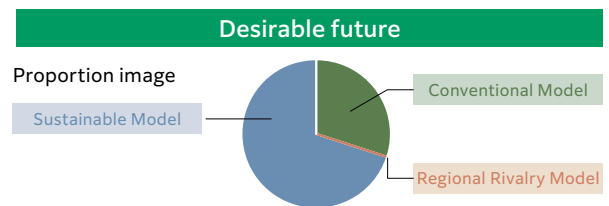
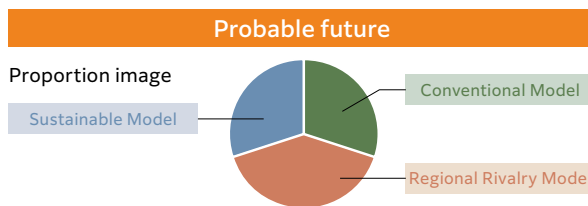
The image provided by BSR.

In the desirable future;

- The sustainability impacts are internalized into the market economy.
- Stakeholder capitalism is formed, and diverse values are assessable. In order to alleviate the economic burden entailed by the shift to such a desirable future,
- Stakeholder dialogues need to be well implemented, where technological innovation and business model creation is encouraged.

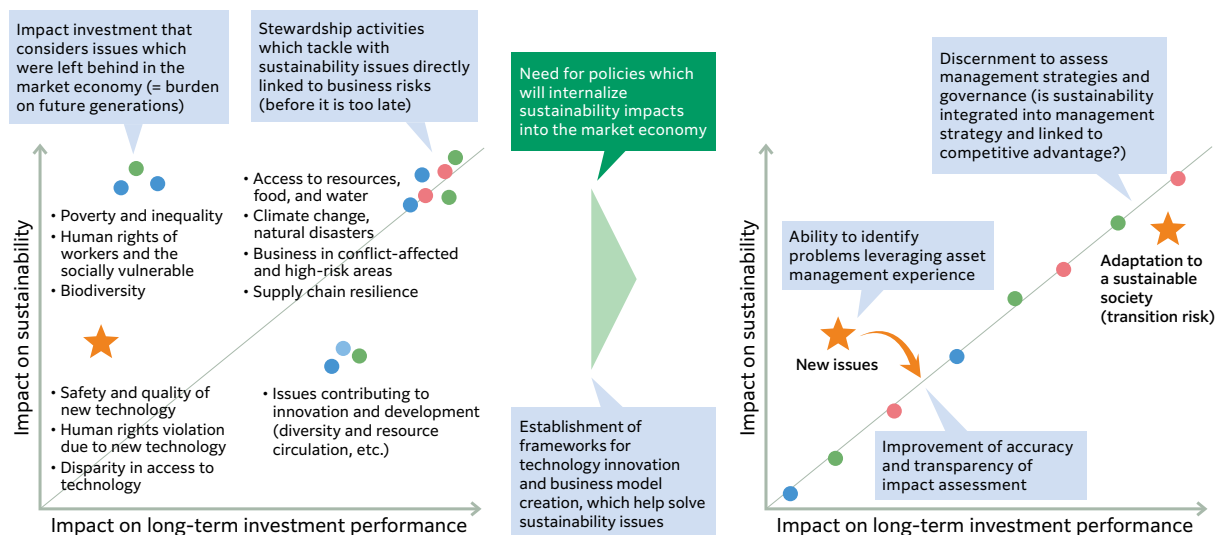
Changes to government policies are essential to functionalize and transit to stakeholder capitalism. Consequently, we have recognized that we asset managers are able to contribute towards this transition.

Gap between the probable future and the desirable future/Role of asset managers



- Difficult to provide future generations with current levels of abundance and happiness
- Sustainability efforts to end up into two pillars, as sustainability impacts are not internalized into the market economy, although long-term value creation is accepted in the capital markets.
- Impacts on companies:
 - Sustainability issues exceeding social ability/responsiveness
 - Deterioration of business continuity and resilience

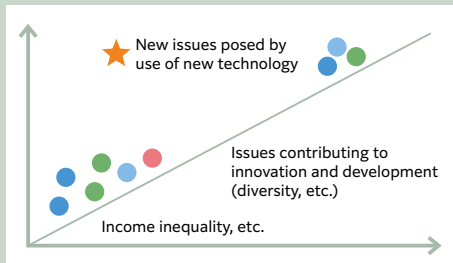
- A society that can provide future generations with current levels of abundance and happiness
- Sustainability impacts to be internalized into the market economy:
 - Stakeholder capitalism which accepts diverse values
 - Sustainability issues to be directly linked to management issues
- There needs to be an economic system that further encourages technological innovation and business model creation in order to alleviate socioeconomic burden on transition.



* Conducted by the advice of BSR

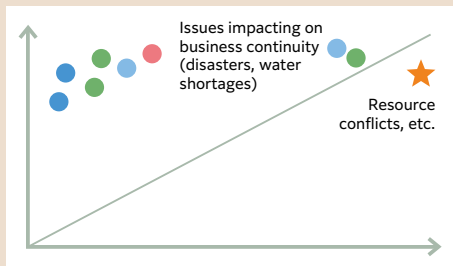
Issues in each scenario based on future projections

Conventional Development Model



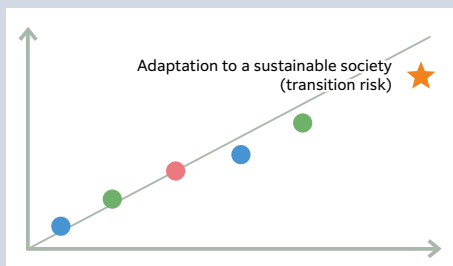
- Diversity: Sustainability issues, which consist of technological innovation, will be integrated into business strategy.
- Risk mitigation on food and natural disaster will be made possible from technology innovation.
- Inequality, human rights for the socially vulnerable will be severe issues for the society.
- Following issues will emerge as a result of prioritization on economic and technological development
 - Safety and quality of new technology, such as food tech and automation
 - Land ownership
 - Disparity in access to new technologies
 - Human rights violations due to lack of ethical monitoring of AI
- These scenarios assume: The free market economy, where assessment on potential innovation is tied to corporate value.

Regional Rivalry Model



- Intergenerational inequality: Inequities (lack of fairness or justice) between generations with regard to standards of living
- Further concern towards sustainability issues will cause direct impact on business continuity and "supply chain resilience" due to: The unstable society derived from poor responsiveness on sustainability.
- Priorities on sustainability issues which do not affect business continuity will be lower because: Sustainability management and investment are not rewarded.
- Difficulties to achieve sustainable procurement because of: Clash of civilization and competition among regions on mineral resources, food, and water.
- The above scenarios are based on conventional shareholder capitalism.

Sustainable Model



- Emphasis on equality among generations
- The current generation to accept a burden for the later generations
- Conventional sustainability issues will be progressively internalized into the market economy
- Directly linked to management issues
- On the other hand, the economic burden for sustainability will increase, and delays on initiatives will be directly linked to business risk (= transition risk)
- The most important issue will be to:
 - Incorporate sustainability into business strategy
 - Connect to competitive advantage
- Requiring increased sensitivity to sustainability issues
- Strengthening governance and partnership frameworks
- Stakeholder capitalism which accepts diverse values (conditional on impact assessment being internalized in the market economy)
- Resona Asset Management's intention:
 - Not only to engage on sustainability issues/defensive action, but also to
 - Aim for a society which promotes innovation and competition necessary for sustainability.

Scenario analysis viewed by issue

Inclusive socioeconomy

Food production



- Agriculture in 2050 will need to produce almost 50% more food than it did in 2012 to meet demand.
- However, given the agriculture sector's dependence on climate, the increase in weather-related events is of significant concern to agriculture, adding to the vulnerability of individuals and challenging their food security. (FAO/2012)
- Due to projected climate change by the mid-21st century and beyond, global marine-species redistribution and marine-biodiversity reduction in sensitive regions will challenge the sustained provision of fisheries productivity and other ecosystem services (high confidence). (IPCC/2014)
- Under a climate scenario analysis by FAO, global food and agricultural productions are projected to decline by 0.28% on average by 2050, due to climate-induced crop yield losses
- Consistent with the production decline, global calorie intake, an indicator of food availability, is expected to decline by 0.28%.
- This is connected with a worldwide decline of food purchasing power (2.9%), an indicator of food accessibility. (FAO/2018)

Conventional Development Model

- Solving food shortages through technological capabilities
- Monoculture
 - Industrial agriculture
 - Genetic modification
 - Alternative protein (cultured meat, etc.)

Issues

- Food quality and safety based on new food tech
- Antibiotic resistance
- Animal welfare
- Degradations of biodiversity/genetic resources
- Access to technology / Access to nutrition
- Loss of ecosystem / Deforestation

Regional Rivalry Model

- Food shortages due to climate change
- Surge in food prices
 - Global competition for food
 - Worsening starvation in the poorest countries
 - Ecosystem degradation due to development of agricultural land
 - Water shortages / Promotion of the "Local Production for Local Consumption" model

Issues

- Access to food/nutrition
- Loss of ecosystem / Deforestation

Sustainable Model

- Emphasis on conversion to low-environmental impact food production (plant-based protein) and equal food supplies
- Strengthening of regulations for future generations
 - Promotion of the "Local Production for Local Consumption" model

Issues

- Right to free consumption (meat, sugar, etc.)
- Safety of plant-based protein sources

Inclusive socioeconomy

Aging society with a low birth rate & Health



Global population aging: The global average lifespan is increasing in every area of the world and is expected to reach 77.1 years in 2050. On the other hand, the total fertility rate is declining, mainly in advanced countries, and the world population aged 65 or over is expected to more than double between 2019 and 2050.

Aging society with a low birth rate in Japan: In 2029, the population of Japan is expected to fall below 120 million, breaking through 100 million to 99.24 million in 2053. The proportion of the total population aged 75 or above will exceed 25%, that is, approximately one in four people aged 75 or above in 2065. With the impact of the declining birthrate, the working aged population will fall below 70 million in 2029 and is expected to fall to about 45 million in 2065.

Labor shortage in Japan: The number of employed persons in Japan may fall from about 67 million in 2019 to about 52 million in 2040. The labor shortage will grow more pronounced, particularly in small and medium-sized companies. In a breakdown by industry, the labor shortages will become severe for regular employees in the manufacturing and construction industries and for part-time employees in the lifestyle-related service industry.

Conventional Development Model

Expanded acceptance and deregulation of immigrant workers, and changes to workstyles

Issues

- Human rights of newly immigrated workers and lack of inclusive measures
- Human rights of non-regular workers and gig workers
- Competition between domestic vulnerable workers and immigrant workers, and resistance among domestic workers
- Financial collapse or disappearance of depopulated areas of Japan

Regional Rivalry Model

Expanded acceptance of immigrant workers, and increase in vulnerable workers following increase in refugees

Issues

- Human rights of immigrant workers
- Financial collapse or disappearance of depopulated areas in Japan

Sustainable Model

Expanded acceptance of immigrant workers, changes in workstyles, increase in employment of seniors, and further advancement in Japan of distributed economy and workers living in regions

Issues

- Intergenerational gap
- Labor shortages in Japan
- Occupational health and safety due to increase in senior-aged workers

Inclusive socioeconomy

Income inequality



Economic inequality: Income inequality in OECD countries has reached its worst level in the past 50 years, with the average income of the highest paid 10% reaching approximately 9 times the average income of the lowest paid 10%.

Safety net: In low-income countries, around one in five people in poverty worldwide remain outside the protection of a safety net.

Health care: The ratio of the global population able to access essential health care is projected to improve from 33–49% in 2017 to 39–63% in 2030. However, 3.1–5.2 billion people worldwide are still expected to have no access to necessary health care.

Digital divide: In areas with weak internet connectivity and low line capacity, the utilization of AI and IoT technology will be limited, impacting productivity. The vicious cycle of inequality in employment opportunities and economies due to gaps in education and capabilities will worsen even further.

Increase in refugees: Over the past 10 years, 10 countries and regions have experienced emigration of over one million people (outflows due to worker migration, conflict, or safety). In 2030, as the global population increases, refugees due to climate change and other new causes will increase. The increase in low-skilled, low-paid workers in some countries will have a significant impact on global labor supply.

Conventional Development Model

- Disregarding the issue of inequality
- Increase in domestic economic inequality of income, education or employment
- Developing countries will develop as a result of supplying resources and labor

Issues

- Digital divide (education disparity, capability disparity), and access to technology
- Reeducation and capability development of workers
- Decrease in opportunities for participation by the socially vulnerable and minorities, lack of board diversity

Regional Rivalry Model

- Disregarding the issue of inequality
- Halt in development aid
- Increase in refugees
- Increasing dissatisfaction of citizens will give rise to populism
- Political tension and destabilization

Issues

- Deterioration of human rights issues due to increase in refugee, immigrant workers and vulnerable workers
- Education and capability development of low-skilled workers
- Decrease in supply chain resilience due to destabilization of developing and emerging countries
- Reduced health care access and increased risk of infection disease

Sustainable Model

- Emphasis on equality
- Ensure living wage
- Increase income and wealth taxes
- Need to pivot away from monopolistic business models through fair distribution of resources

Issues

- Increase in social contribution and social impact
- Collaboration with stakeholders
- Reeducation and capability development of workers
- Increased economic burden on high income earners (wealth tax), and corporations (wage burden, tax burden)

Inclusive socioeconomy

Development & Poverty



Increased population in under-developed countries: Over half of the global population increase up to 2050 will be concentrated in nine countries:

India, Nigeria, Pakistan, the Democratic Republic of the Congo, Ethiopia, Tanzania, Indonesia, Egypt, and the United States.

Around 2027, India's population is expected to overtake that of China, making it the most populated country in the world. Population growth in under-developed countries is a significant issue for sustainable development.

Increased population in extreme poverty: Global food production is expected to decrease even as food demand increases due to population growth, making the issue of food security more severe. The proportion of people worldwide living in extreme poverty is expected to increase from 8.6% in 2018 to a maximum of 12% by 2030, corresponding to 1.065 billion people.

Conventional Development Model

- Disregarding development issues
- Increase in demand for mineral resources due to high economic growth, leading to rapid growth in resource countries

Issues

- Exploitation of resources of developing countries
- Increased conflict minerals risk

Regional Rivalry Model

- Disregarding development issues
- Famine in developing countries due to climate change
- Deterioration of poverty issues
- Concentration of poor regions
- Increase in refugees
- Exploitation of resources and labor in developing and emerging countries

Issues

- Exploitation of resources of developing countries
- Human rights violations of refugees and immigrant workers
- Decrease in supply chain resilience due to destabilization of developing and emerging countries

Sustainable Model

- Emphasizing development issues
- Strengthen aid for developing countries
- Encourage development of developing countries

Issues

- Right to free consumption (meat, sugar, etc.)
- Safety of plant-based protein sources

Scenario analysis viewed by issue

Inclusive socioeconomy

Human rights



In Europe, directives mandating human rights due diligence are expected to be formulated. The following communities are vulnerable in the area of human rights.

Immigrant workers: International immigrants made up 3.5% of the world’s population in 2019, at 272 million people. According to the International Labour Organization (ILO), around 60% of the people relocating globally are immigrant workers. Occupational risks in their work are considered quite high since working environments are characterized by the 3Ds (Dirty, Dangerous, and Demanding) and a high proportion of work is concentrated, temporary, or seasonal.

Indigenous peoples: With the focus of public attention on protest movements concerning infringements of rights of indigenous people in the North American pipeline development project, in recent years, awareness of respecting the rights of indigenous people is also spreading in Asia and Oceania.

Non-regular employment and gig workers: Work-sharing will become popular, and even as the vulnerability of non-regular workers become apparent, the gig economy and non-regular workers will continue to increase.

Workers facing high health and safety risks: According to the ILO, there are around 1,000 occupational accidents and about 6,500 people dying from work-related accidents or diseases every single day. The proportion of fatalities is markedly high in Africa and Asia, and given the expected increase in working population in these areas in the future, the issue is considered extremely serious.

Conventional Development Model

Disregarding human rights issues

- Priority on technology advancement
- Workstyle changes (project-based employment)

Issues

- Long working hours among white-collar workers
- Mental health
- Human rights of non-regular workers and gig workers
- Human rights violations associated with advance in digitalization (personal information protection), human rights violations associated with the use of AI (AI monitoring, infringement on freedom of expression, hate and human rights violations on social media)
- Violation of indigenous peoples’ rights due to prioritizing development

Regional Rivalry Model

Disregarding human rights issues

- Increase in vulnerable workers associated with increase in refugees
- Resource grabbing and uncontrolled land development

Issues

- Risks related to workers’ human rights (forced labor, child labor, health and safety)
- Land rights violations (forced transfer)
- Violation of indigenous peoples’ rights

Sustainable Model

Emphasizing human rights issues

- Reduced freedom due to excessive respect for human rights

Issues

- Harms arising from excessive respect for human rights
- Increase in corporate burden (slowdown in new business development due to high risk of lawsuits)

Sustainable environment

Water risk



Water shortages: In the major mining regions of Chile, Australia, Indonesia, and South Africa, water shortages and drought issues are projected to worsen. Under the World Wildlife Fund (WWF) scenario analysis, the proportion of global GDP attributable to areas of high water risk may increase from 10% in 2020 to 46% in 2050. Currently, 33% of the world’s population lives in areas of water shortage. However, a 4°C temperature rise is projected to increase this figure about 1.5 times to 47–50% (under the IPCC’s Fifth Assessment Report WGII), while the World Resources Institute (WRI) projects that water shortages will grow worse in the West and South of the U.S., China, Southeast Asia, and the Middle East. Water shortage is an issue that is closely tied to issues in developing countries such as food shortages and poverty.

Conventional Development Model

Competition to secure land in relation to water resources due to prioritization of the economy

Issues

- Soaring agricultural commodity prices due to depletion of groundwater
- Degradation of ecosystems due to intensification of land development in areas of low water stress
- Risk of land rights violations

Regional Rivalry Model

Global competition for water resources

- Industrial decline due to water shortage (Australia)

Issues

- Soaring agricultural commodity prices due to depletion of groundwater
- Increase in business continuity risk for business sites in areas of high water risk and reduction in supply chain resilience

Sustainable Model

Strengthening of regulations emphasizing water risk, such as water withdrawal limits

- Water footprint
- Soaring values of land and assets with low water risk due to consideration of water risk in assessment by financial markets

Issues

- Soaring value of land and assets where water risk is low
- Water footprint

Sustainable environment

Natural disasters



Natural disaster risk: The 2018 revision of World Urbanization Prospects includes: Estimates and projections for 1,860 urban agglomerations with 300,000 inhabitants or more (as of mid-2018).

- It has been estimated that:
 - The direct losses from all disasters in the period 1998-2017 totaled \$2.9 trillion, which is 2.3 times as much as the overall losses of \$1.3 trillion in the period 1978-1997.
- New analysis from WRI (World Research Institute) on Aqueduct Floods finds:
 - The number of people affected by floods will double worldwide by 2030.
 - The amount of urban property damaged by riverine floods will increase threefold — from \$157 billion to \$535 billion annually.
 - Urban property damaged by coastal storm surge and sea level rise will increase tenfold — from \$17 billion to \$177 billion annually.

According to the National Institute for Environmental Studies, when calculated based on the 2011 Statistical Survey on Flood Damage of Ministry of Land, Infrastructure, Transport and Tourism, an annual average flood damage cost in this research's base period (1981-2000) represents approximately ¥200 billion, and it possibly results in double increase at the end of the century from the present (around 2013).

Sea level rise: Land inundation due to sea level rise will force people living in small island nations and countries with extensive coastlines to relocate.

Heat stress: Projections with the RCP8.5 scenario indicate:

- Annual mean temperature at the end of the 21st century will rise throughout Japan.
- Projected at 3.4 to 5.4°C (suggested greater increase at higher latitudes), with the number of hot summer days increasing by more than 50 and extremely hot days increasing by around 20.
- Human health, Industrial/Economic activity, Life of citizenry and Urban life
- Under the RCP8.5 scenario, the projected number of cases where heat illness patients will be carried by an ambulance will:
 - Increase nationwide in the mid-21st century (2031-2050).
 - At least double in eastern and northern Japan.

Synthesis Report on Observations, Projections and Impact Assessments of Climate Change, 2018 "Climate Change in Japan and Its Impacts" (Ministry of the Environment, et al.)

Conventional Development Model

As natural disaster risk increases, the states' resilience will strengthen

- Natural disaster risk assessment will advance in financial markets such as insurance
- Soaring prices for safe land

Issues

- Rise of business continuity risk of supply chains in developing countries
- Widening inequality due to soaring land prices and housing costs
- Disparity of resilience among states and cities

Regional Rivalry Model

Natural disaster risk will become more severe due to worsening climate change. international cooperation will be delayed and disaster resilience will be decreased

- Human damage will increase in areas vulnerable to disaster
- Increase in climate refugees

Issues

- Business continuity risk from natural disasters
- Business continuity risk in supply chains in developing countries
- Decline in resilience of supply chains due to geopolitical risk in non-developed countries.
- Increase in labor safety risk due to heat stress
- Increased risk on infectious disease from temperature rise

Sustainable Model

Focus on increasing the resilience of states and cities

- People living in high-risk areas will be encouraged to relocate to safe areas, and natural disaster risk assessment will be advancing in financial markets such as insurance

Issues

- Increased burden for infrastructure investment (public charges, tax burden)
- Increase in costs of corporate resilience measures
- Disaster measures for operation sites and value chains
- Safety confirmation of employees and suppliers

Sustainable environment

Climate change



The IPCC Special Report on Global Warming of 1.5°C (SR15) (October 8, 2018)

• SR15 shows that, for global warming to be limited to 1.5°C, "Global net human-caused emissions of carbon dioxide (CO₂) would need to:

- Fall by about 45% from 2010 levels by 2030,
- Reach "net zero" around 2050."

• The reduction of emissions by 2030 and its associated changes and challenges, including rapid decarbonization, was a key focus on much of the reporting which was repeated through the world.

This means a more rapid and marked change compared to the emissions pathway for keeping the temperature rise within 2°C. The 1.5°C emissions pathway requires:

- Increasing the proportion of low-emission energy sources. This entails a significant improvement and spread of renewable energy and electricity storage technologies, with the proportion of electricity provided by renewable energy projected to be around 50% by 2030 and 85% by 2050 (IPCC 2018 table 4.1).

The share of primary energy from renewables increases while coal usage decreases across pathways limiting warming to 1.5°C with no or limited overshoot (high confidence). By 2050, renewables (including bioenergy, hydro, wind, and solar, with direct-equivalence method) supply a share of 52-67% (interquartile range) of primary energy in 1.5°C pathways with no or limited overshoot; while the share from coal decreases to 1-7% (interquartile range), with a large fraction of this coal use combined with carbon capture and storage (CCS).

Emissions from the industry sector need to be reduced by:

- 40% by 2030, and
- 65-90% by 2050.

Efficiency gains in energy and processes alone will not be sufficient. Heavy industry will need to introduce alternative fuels, circular usage, and carbon capture and storage technologies (IPCC 2018).

The 1.5°C pathways would require:

- Rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems.
- Technical measures and practices enabling deep emissions reductions include various energy efficiency options. In the transport sector, the share of low-emission final energy should rise from 2035 to 2050. (IPCC SR15, October 2018)

Conventional Development Model

Increases in energy demand and GHG emissions

- Active innovation on next-generation vehicles and hydrogen fuel cell technology

Issues

- Increase of GHG emissions, severity of climate change impacts
- Worsening air pollution in developing countries

Regional Rivalry Model

Increases in energy demand and GHG emissions

- Halt in climate assistance to developing countries
- Industry relocation to the relaxed regulation countries

Issues

- Increase of GHG emissions, severity of climate change impacts
- Industry relocation to countries with cheap energy prices (coal reliant) and carbon leakage
- Conflict between countries due to differences in stance on climate change countermeasures
- Worsening air pollution in developing countries

Sustainable Model

GHG emissions will be reduced 40% by 2030 and to net zero by 2050

- Introduction of universal carbon tax
- Ban internal combustion engine vehicles
- Mandatory requirement towards zero emission buildings
- Penetration of hydrogen energy


Issues

- Stable supply of electricity and energy security
- Nuclear power safety and the risk to next generation
- Increase in economic burden for investment in hydrogen infrastructure and investment in renewable energy, hollowing out of the economy due to strengthening of carbon pricing and emissions regulations
- Stranding of fossil fuel assets and dissatisfaction of high emission sector workers due to overly rapid transition
- Just transition (reeducation of workers and smooth employment transition)

Scenario analysis viewed by issue

Sustainable environment

Biodiversity



Land degradation: The quality of land and soil is being degraded by environmental pollution, overuse of agrochemicals, over grazing, erosion, climate change, and deforestation of land belonging to indigenous communities. Competition for acquisition of land to cultivate food and biofuels is also becoming more intense. According to the FAO, over 33% of land in the world is already degraded, and over 90% of land in the world could be degraded by 2050.


Biodiversity risk: The UN reports that its 20 international goals to be achieved by 2020 under the Convention on Biological Diversity have not been fully met. The natural environment and survival and diversity of the living organisms are being destroyed at a rate that is several tens to hundreds of times faster than the average over the past 10 million years. Ecosystems are thought to have declined by 47%. Remedying this situation requires a radical transformation of society overall. The UN warns that, without such a transformation, there is a risk that approximately 1 million species of animals and plants – the largest number in history – could face the risk of extinction within decades.

Deforestation: The current area of the world’s forests is around 68% of the estimated area prior to the industrial revolution. The global area of intact forest landscape declined by 7% (919,000 km²) from 2000 to 2013.

Conventional Development Model	Regional Rivalry Model	Sustainable Model
<p>Disregarding biodiversity</p> <ul style="list-style-type: none"> • Advance of land development and deforestation to support resource demand <p>Issues</p> <ul style="list-style-type: none"> • Decline of biodiversity and worsening of deforestation • Loss of access to natural resources and tourism resources for future generations • Increased risk from viruses and infectious diseases due to decrease in species diversity and increased uniformity 	<p>Disregarding biodiversity</p> <ul style="list-style-type: none"> • Advance of land development and deforestation to support resource demand <p>Issues</p> <ul style="list-style-type: none"> • Decline of biodiversity and worsening of deforestation • Food shortages due to massive pest outbreaks and so forth • Loss of access to natural resources and tourism resources for future generations • Increased risk from viruses and infectious diseases due to decrease in species diversity and increased uniformity 	<p>Emphasizing biodiversity</p> <ul style="list-style-type: none"> • Prohibition of deforestation • Expansion of designated protected areas • Strengthening of regulations on trading in biological resources • Promotion of investment for recovering biodiversity <p>Issues</p> <ul style="list-style-type: none"> • Inability to use nature as a tourism resource resulting from tighter regulation of tourism resources due to expansion of protected areas and strengthening of regulations

Corporate culture, purpose

Technological innovation & Digitalization (Cybersecurity)



Advance of automation and smartification driven by robotics and AI: Companies need to minimize worker unrest by cooperating with governments and other industry-related entities. As secondary impacts on workers from the industrial use of robotics, the ILO indicates the risk of accidents arising from loss of understanding, control, and knowledge of work processes and over reliance on the certainty of robots and AI.

Techno-nationalism and cyberattack risk: Companies’ digitalization strategies are heavily reliant on technologies such as cloud computing and 5G, which increases cybersecurity risks. There is a potential impact on the growth of certain markets from a halt in transfer of technologies between regions.

Impact of monitoring technologies: Monitoring technologies are advancing rapidly, and their application has accelerated under COVID-19. While they lead to increases in plant efficiency and health and safety, sales of software for monitoring workers working at home have risen sharply and could have a negative impact on employees’ privacy. Moreover, the longer the period that emergency measures remain in place, the greater the risk that government monitoring of citizens’ movements and bio-information become normalized.

Impact on labor markets: Automation could have disproportionate impacts on certain groups, such as African Americans and women.

Conventional Development Model	Regional Rivalry Model	Sustainable Model
<p>Advancing digitalization and automation, increasing competition in technology development, and increased protection of intellectual property rights</p> <p>Issues</p> <ul style="list-style-type: none"> • Data usage and personal information protection • Server attack risk • Violation of the rights of workers in labor-intensive industries due to automation and robotization • Worker safety and product safety in conjunction with the use of automation technologies (automated driving vehicles) • Human rights violations in surveillance societies (monitoring of workers by companies, monitoring of citizens by governments) • AI weapons • AI ethics (when used in hiring and customer differentiation, etc.) • Transparency of taxes of multinational corporations based on ICT platforms 	<p>Increasing disparity in technological innovation and digitalization between regions (techno-nationalism)</p> <ul style="list-style-type: none"> • Unintended use of digital technologies by high-risk national governments <p>Issues</p> <ul style="list-style-type: none"> • Data usage and personal information protection • Server attack risk • Human rights violations by surveillance societies (monitoring of citizens by governments, infringement on freedom of expression) 	<p>Co-creation based technological innovation</p> <ul style="list-style-type: none"> • Increased regulation of monopolistic use of intellectual property rights <p>Issues</p> <ul style="list-style-type: none"> • Increase in importance of partnerships between companies • Need to pivot away from monopolistic business models

Corporate culture, purpose

Corporate ethics & Anti-corruption



In the global market economy, the issue of uneven wealth distribution by lone winners has been pointed out and demands on major companies to demonstrate corporate ethics are growing stronger.

Corruption risk: Longstanding involvement of multinational corporations in structural bribery schemes has been pointed out. In particular, in countries that are home to the head offices of multinationals, there are concerns that implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions may be withheld. Enhancing the efficacy of the convention has become an issue. A report by the OECD Working Group on Bribery points out that in Japan the implementation status of bribery prevention laws is particularly poor.

Tax transparency: Automatic information exchange and offshore taxation surveys to eradicate bank confidentiality for the purpose of tax evasion are yielding significant results on the issue of offshore tax evasion. Going forward, the OECD plans to advance collaboration between governments focused on preventing tax evasion in emerging countries and increasing tax transparency.

Involvement in government: Corporate spending related to lobbying in the United States has risen to \$3.1 billion per year. Lobbying can result in preferential treatment of a particular profit-making entity, so it is extremely important to ensure transparency. In addition, there is an increasing number of cases where company CEOs have been required to offer opinions that are critical of a particular government in countries and regions where human rights are not respected, or conversely, be criticized for not expressing an opinion.

Conventional Development Model

Competitive society and growth of major multinational companies

- Emergence of issues related to uneven wealth distribution

Issues

- Tax transparency of multinational corporations
- Transparency of involvement in government
- Fair competition
- Discovery of bribery causing major damage to corporate value

Regional Rivalry Model

Disregarding corporate ethics

- Polarizing ESG company evaluations by market and region

Issues

- Corruption risk
- Discovery of bribery causing major damage to corporate value

Sustainable Model

Emphasizing corporate purpose and corporate ethics

- A polarized market in which best practice companies receive higher assessments

Issues

- Increasing importance of corporate governance
- Discovery of bribery causing major damage to corporate value

Corporate culture, purpose

Diversity



Racial justice: The Black Lives Matter (BLM) movement in the United States has grown to an unprecedented scale. Racial justice groups in the United States collected an estimated \$5.9 billion in funds in 2020 from aid foundations and high value donors. This trend is developing into a global movement calling for the elimination of structural oppression, driving an increasing need to include people who have suffered any form of discrimination, based on gender, race, ethnicity, or disability and so forth. Furthermore, in addition to diversity and inclusion (D&I), there is also a rising demand for equity (DEI).

Gender diversity: Companies that lack gender diversity suffer negative effects on diversity of thinking and ideas, risk management, and decision making. There are numerous analyses showing that their financial results are lower than those of companies that have high gender diversity, creating stronger selection pressure from institutional investors. In Japan, the wage disparity between men and women is such that in terms of the average pay of general workers, women make only 73.3% of what men make (2018 figures). The ratio of female executives is 14.8% for all companies, while for listed companies, women make up only 5.2% of corporate officers (2019), an extremely low level compared with other countries.

Conventional Development Model

Promoting diversity to drive corporate competitive capability and innovation

- Changes in workstyles and employment
- Increased entrepreneurial activity by CEOs with minority backgrounds

Issues

- Emphasis on capability development and employee retention

Regional Rivalry Model

Disregarding diversity

- Conflict between management and labor

Issues

- Halt to diversity and inclusion (discrimination and structural disparity)
- Drop in employee retention

Sustainable Model

Emphasis on DEI

- Promotion of affirmative action
- Increased entrepreneurial activity by CEOs with minority backgrounds
- Changes in workstyles and employment, such as workers' collectives

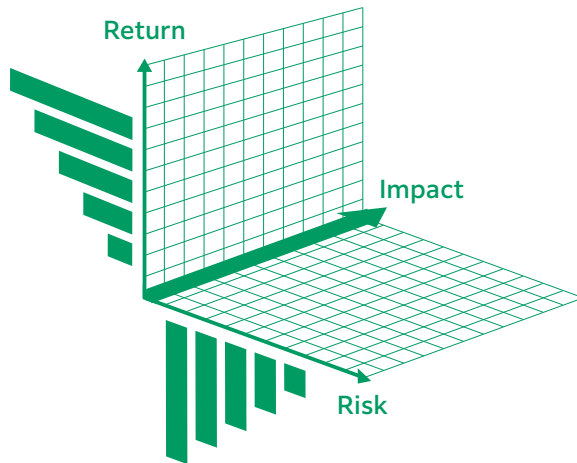
Issues

- Increase in employment costs due to affirmative action and enhancement of education for low-skilled workers.
- Emphasis on employee engagement
- Emphasis on diversity in supply chains

Impact management

■ Impact measurement

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

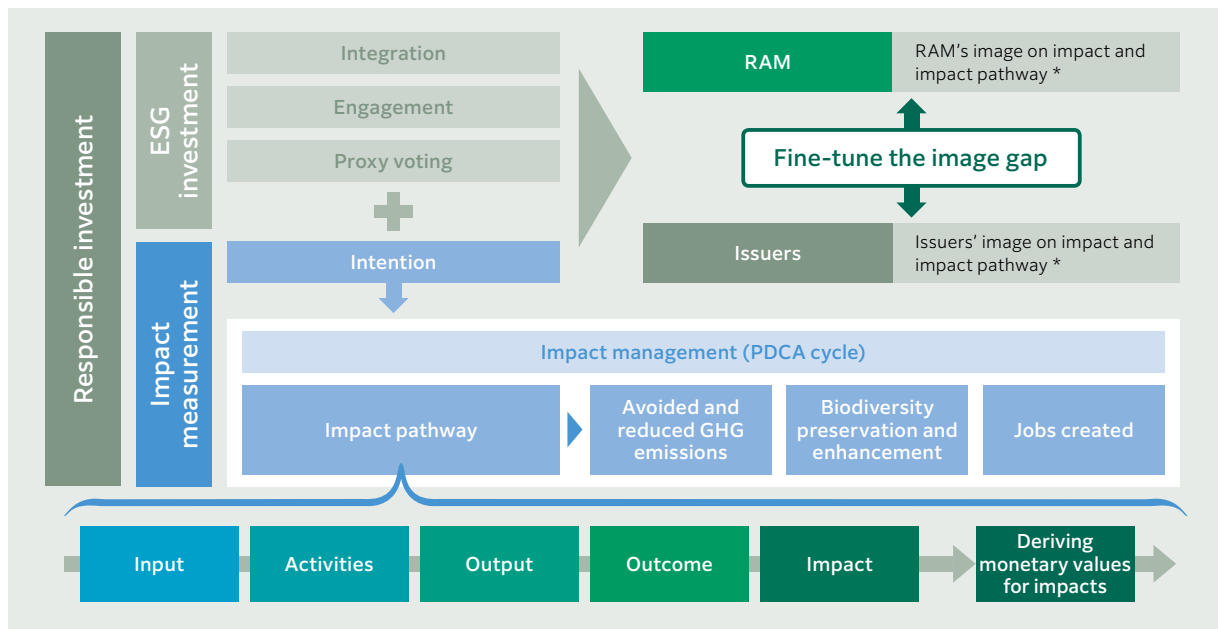


Four Factors of Impact Measurement

1. Intentionality
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.



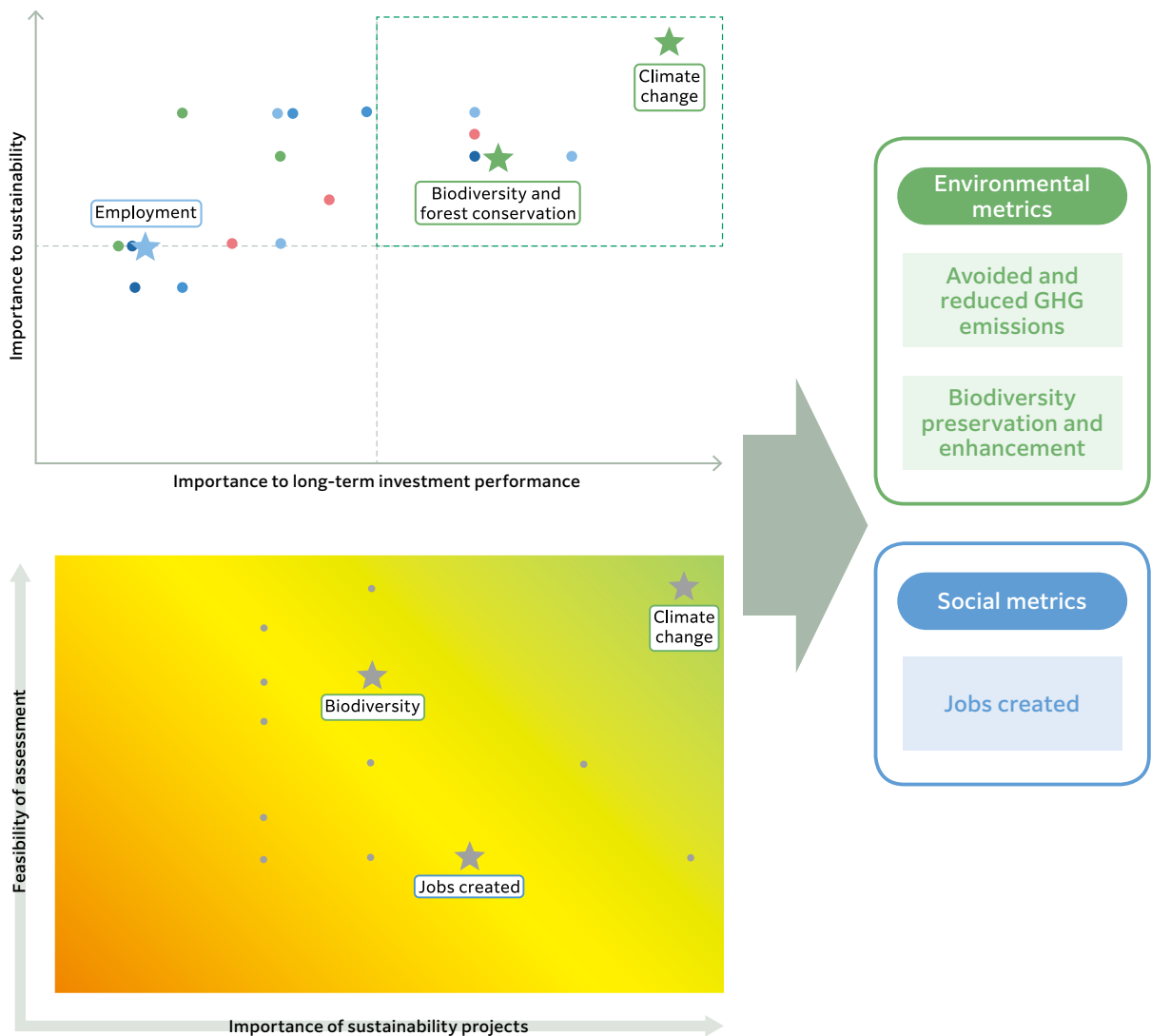
* Impact pathway: An impact pathway maps the causal linkages between inputs and the activities they support (e.g. the funding and projects it supports) and 'real world' outcomes and impacts.

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 conducted impact measurements on sustainability bonds, focused on 5 issuers and 3 indicators, by considering the feasibility of assessment, importance of sustainability projects, and our material engagement issues (page 20).



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.

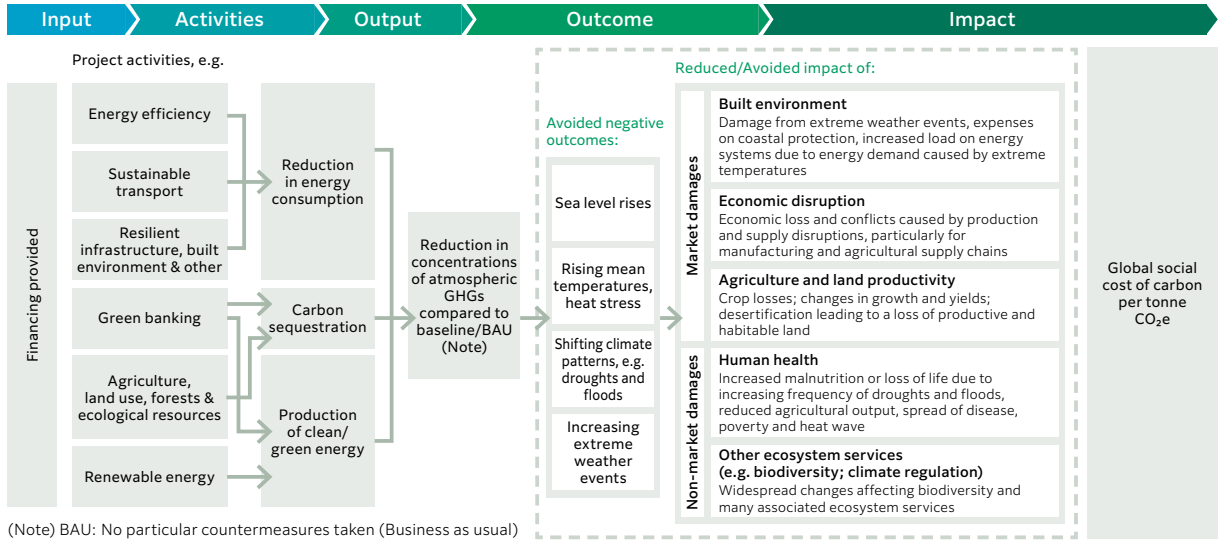
Deriving monetary values for environmental or social impacts



Impact management

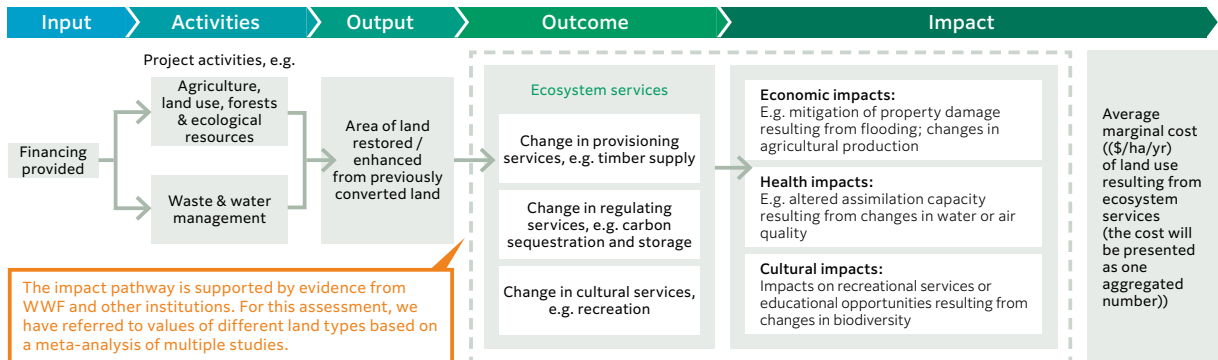
Impact pathway → Avoided and reduced GHG emissions

We have referred to the methodology of Social Cost of Carbon, SCC. We have communicated our approach regarding impact pathways to issuers and have confirmed that there are no major discrepancies in terms of awareness.



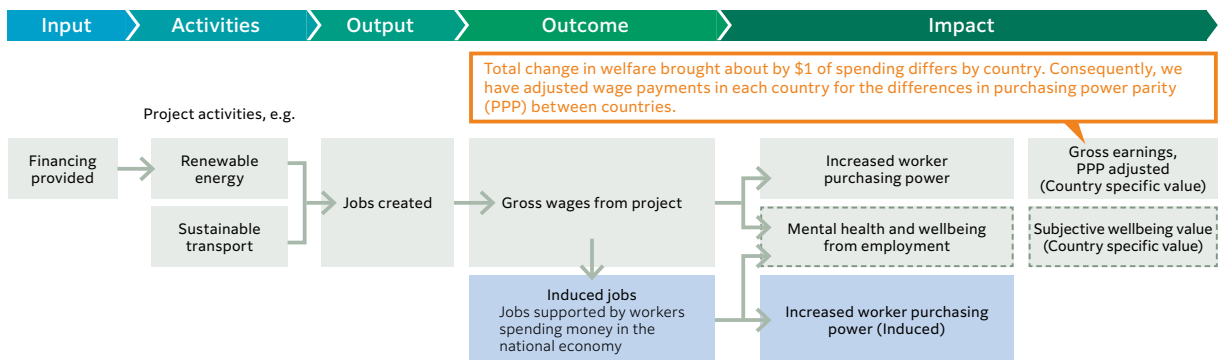
Impact pathway → Biodiversity preservation and enhancement

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).



Results of sustainability bond assessment → **Results by project category**

Whereas sustainability bond issuers have made progress with disclosures on climate change, those on biodiversity and job creation have been inadequate.

	Avoided and reduced GHG emissions	Biodiversity preservation and enhancement	Jobs created
Renewable energy			
Energy efficiency			
Resilient infrastructure, built environment & other			
Agriculture, land use, forests & ecological resources			
Sustainable transport			
Waste & water management			
Green banking			

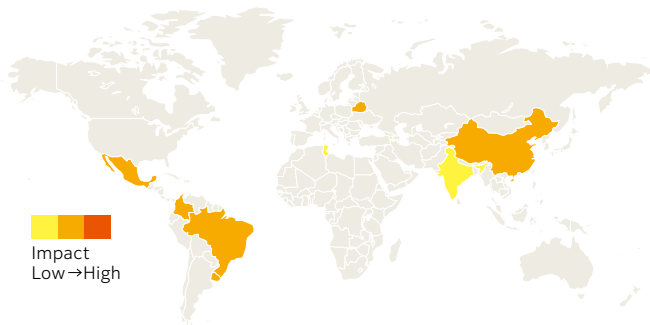
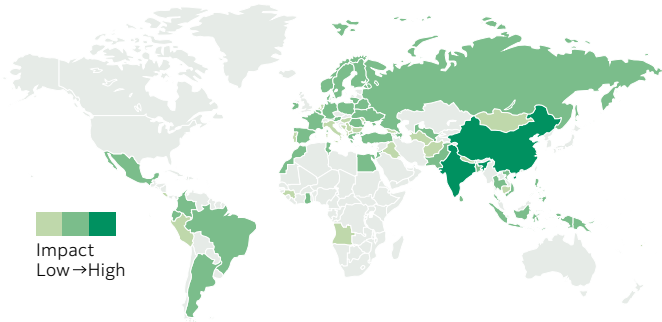
* We did not determine "additionality"^(Note) or negative impact.

Note: 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.

Geographic distribution of impacts

Avoided and reduced GHG emissions

The impacts are largely attributable to projects involving renewable energy. The impacts are widely distributed across various regions. There are numerous large projects particularly in Asia.



Geographic distribution of impacts

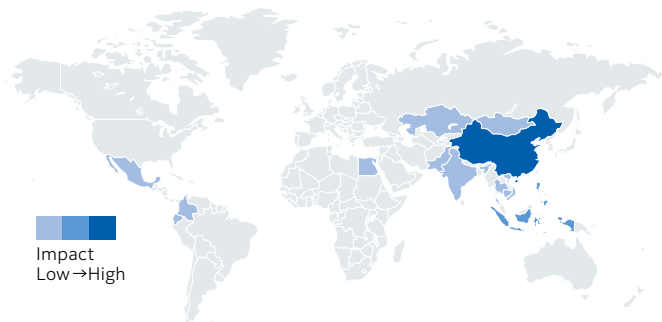
Biodiversity preservation and enhancement

Large projects in Belarus account for about half the total monetary contributions, followed by projects in Uruguay, Brazil, and Mexico.

Geographic distribution of impacts

Jobs created

A majority of the projects involve renewable energy. While a substantial amount of monetary contributions is associated with agriculture and land use, most of it is attributable to a single large project in China.



Dialogue with companies

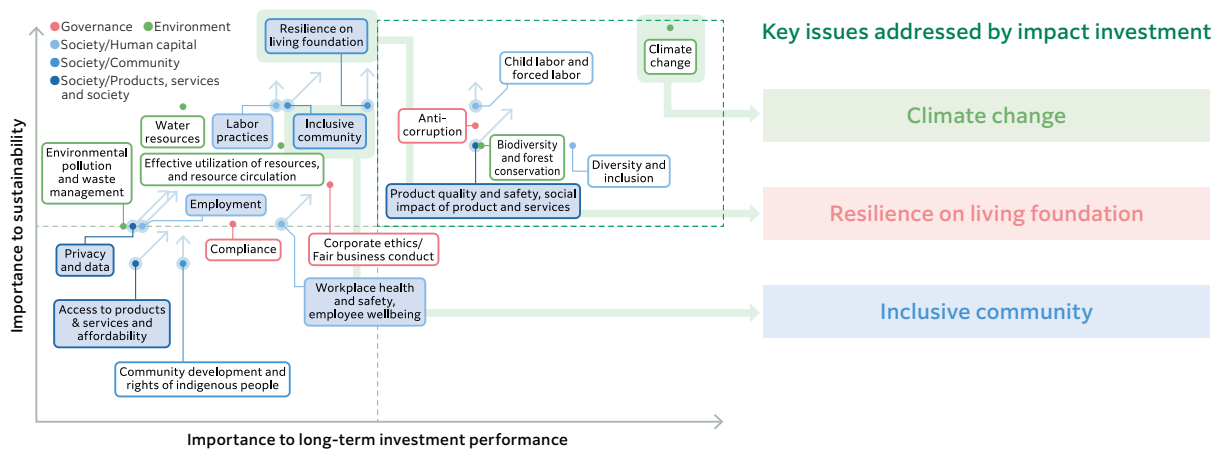
- We perceive risks through confirming whether there are any projects excluded from eligible sustainability projects. There were no excluded projects in this assessment.
- Ongoing dialogue has led to better information disclosure relative to last year with respect to many issuers and indicators.
- We have also conducted engagement with the issuers who were not eligible for impact assessment, encouraging more information disclosure.

Initiatives related to impact investment

Resona Asset Management has embarked on impact investment entailing listed shares, which serves as one of its progressive initiatives. Establishing intentions is an important aspect of impact investment. We have set up impact investment initiatives involving Japanese and global equities, and have accordingly spelled out intentions that take into account matters of importance and urgency to Resona Asset Management’s clients and investee companies.

Embarking on impact investment

We have embarked on impact investment in Japanese equities and impact investment in global equities (climate change) upon having spelled out intentions in that regard based on identified materialities.



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

Intentions

Impact investment in Japanese equities Achieving a Japanese society oriented to sustainability and livability		Impact investment in global equities (climate change) A sustainable world where climate change and its effects do not pose a threat to anybody’s life or health	
Creating sustainable and robust living conditions Topics of engagement <ul style="list-style-type: none"> ■ Creating next-generation communities ■ Maintaining and improving functions of lifeline utilities ■ Preventing and mitigating disasters ■ Industrializing and improving reliability of food production ■ Utilizing sustainable energy (Decarbonization and recycling) 	Creating a society where everyone is able to live in comfort <ul style="list-style-type: none"> ■ Reducing burdens of housework and childcare ■ Diversifying and improving education ■ Achieving sustainable medical and long-term care ■ Addressing managerial challenges of SMEs ■ Encouraging personal empowerment 	Mitigating climate change Topics of engagement <ul style="list-style-type: none"> ■ Reducing GHG emissions to achieve the goal of limiting global warming to 1.5°C ■ Taking a structured approach to addressing individual challenges through categorization of supply-side and demand-side issues ■ Promoting behavioral change across society 	Adapting to climate change <ul style="list-style-type: none"> ■ Addressing issues involving measures for coping with catastrophic events attributable to climate change, procurement of food and water, and other such matters ■ Addressing issues caused by transformation of social structures brought about by measures for coping with climate change

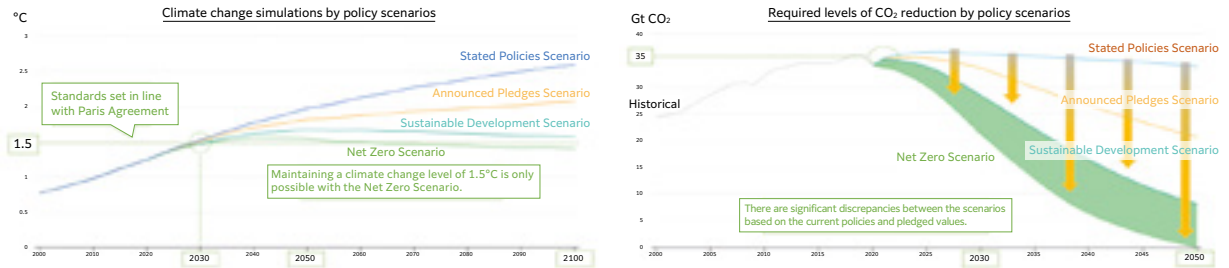
Important considerations for impact investment

1. Clearly articulate social changes to be facilitated through the investment portfolio.
2. Engage in ongoing dialogue with respect to awareness of social challenges and means of addressing such challenges in a manner that involves sharing with investee companies aspirations for producing a positive impact.
3. Share a visual depiction of impacts on society with stakeholders.
4. Seek financial returns premised on producing a positive impact on society.

Impact investment in global equities (climate change)

Accelerated efforts needed to reduce GHG emissions

It will be necessary to reduce annual CO₂ emissions by at least 25 gigatons by 2050 even under the sustainable development scenario goals of the Paris Agreement (strive to limit global temperature rise to 1.5 degrees Celsius in keeping global warming to sufficiently below 2 degrees Celsius). Moreover, an emissions reduction of 35 gigatons is similarly necessary in order to achieve the scenario of 1.5 degrees Celsius. Countering climate change will call for non-linear pathways to social transformation entailing substantial changes with respect to conventional modes of human activity.



Source: World Energy Outlook 2021, International Energy Agency (IEA)

Investment philosophy

We believe it is possible to attain excellent performance while helping to achieve social sustainability by investing in companies that act to interrupt and decelerate (mitigation) processes attributable to climate change, and are capable of minimizing adverse effects of climate change on society (adaptation).

Achieving a sustainable world where climate change and its effects do not pose a threat to anybody's life or health

Mitigation

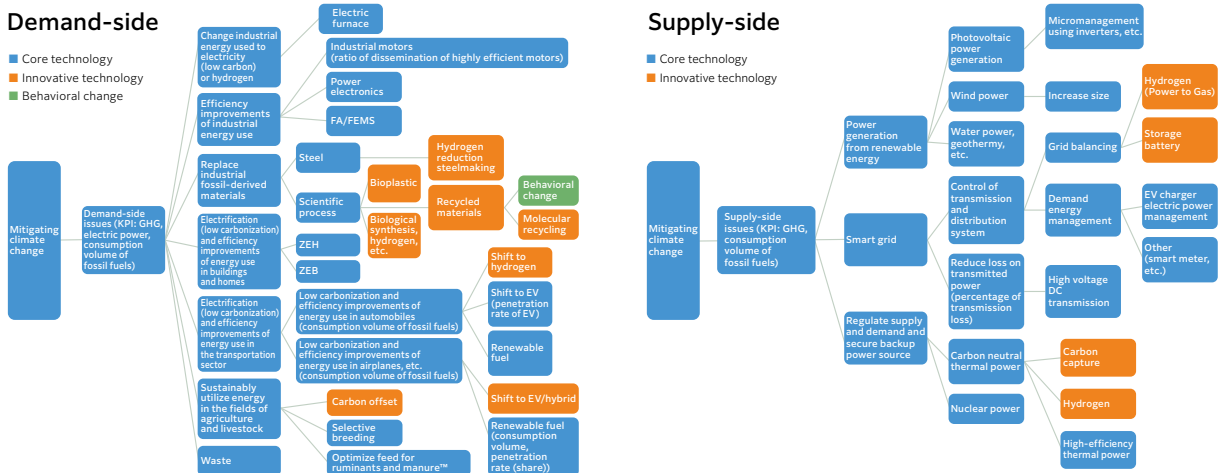
- Stave off climate change by reducing GHG emissions
- Analyze and examine the energy supply-side in seeking to establish and develop a model for energy infrastructure that minimizes environmental loads
- Analyze and examine the energy demand-side in facilitating efforts to decrease energy consumption and promoting environmentally-sound energy

Adaptation

- Facilitate measures to prevent adverse societal effects that cannot be addressed solely through mitigation initiatives (enlisting measures that involve disaster prevention and mitigation, disease control and prevention, and water resources management, etc.)
- Deal with adverse effects on society that may emerge in the course of addressing climate change

Approaches to addressing challenges

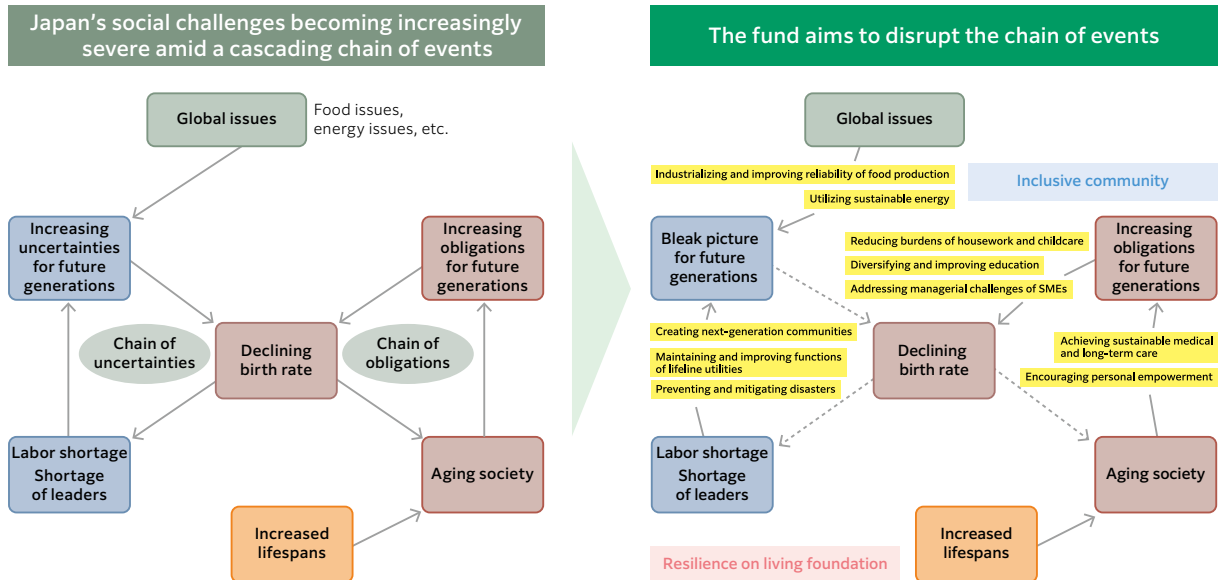
We categorize processes attributable to climate change as either demand-side or supply-side concerns, and furthermore assign them to more specific groupings on the basis of industry and sector.



Impact investment in Japanese equities

■ Cascading nature of social challenges

With social challenges in Japan becoming increasingly severe amid a cascading chain of events, we aim to disrupt that process through this fund.



■ Investment philosophy

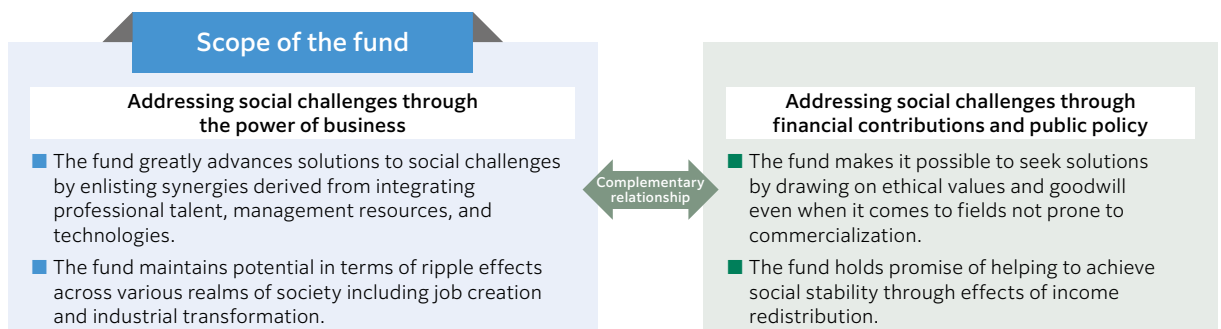
We carry out investment based on our investment fundamentals and investment policy, underpinned by the aim of achieving a Japanese society oriented to sustainability and livability.

Investment fundamentals

Private-sector companies that are not publicly funded are increasingly called on to take on a role of addressing social challenges in the course of their business activities. Companies that contribute to resolving social challenges in response to such societal demands are likely to achieve substantial returns over the long term as they encounter persistent growth by tapping into an abundance of business opportunities.

Investment policy

We carefully make choices to invest in companies capable of leveraging synergies toward producing a positive impact on society and increasing their corporate value through originality and ingenuity. This involves rallying management resources and support for addressing challenges from various stakeholders. We achieve a greater likelihood of producing positive impacts through dialogue and engagement focused on specific thematic goals.

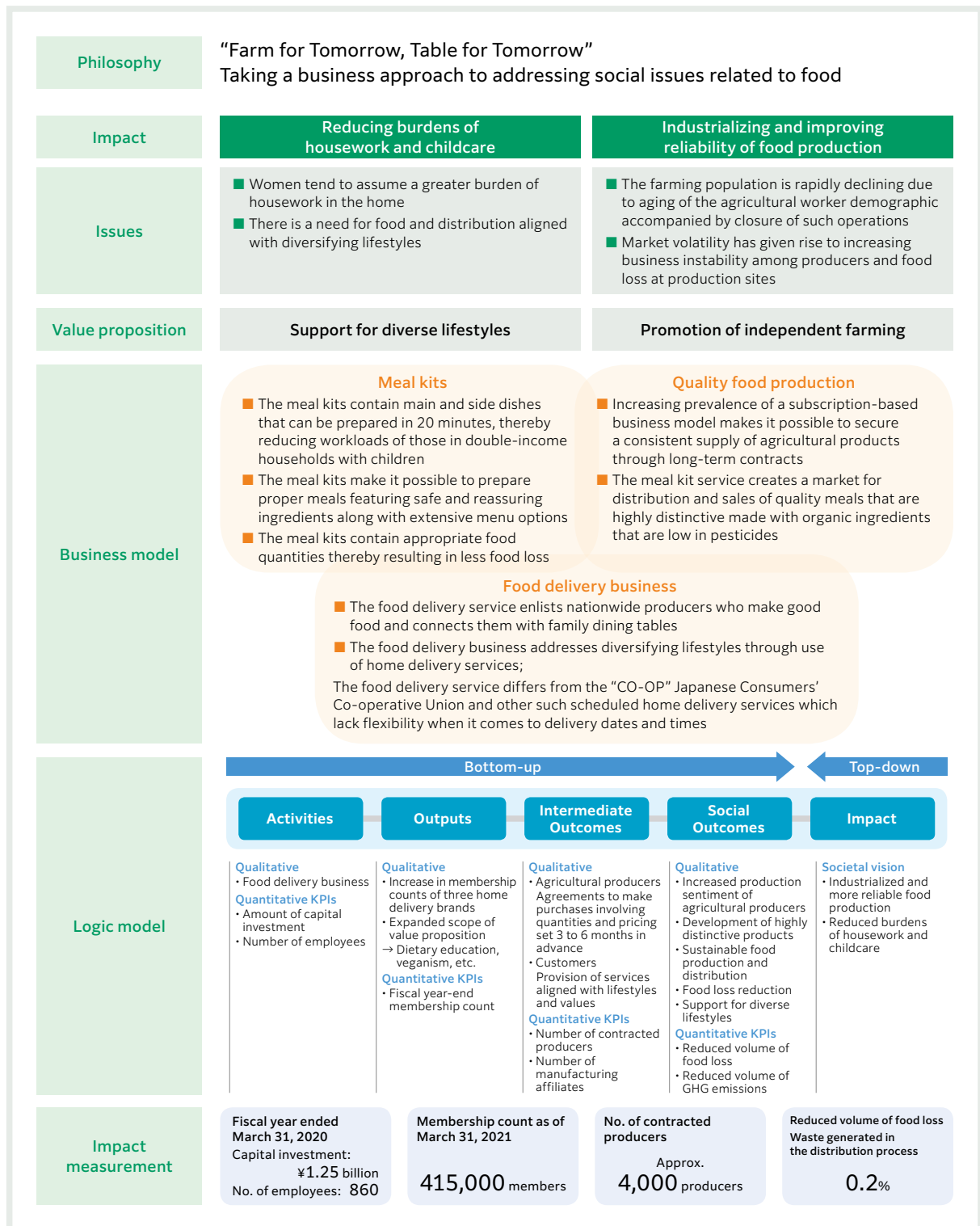


■ Impact measurement and logic model

This section presents actual examples of impact measurement. We achieved a greater likelihood of producing positive impacts by conducting engagement based on impact measurement.

Example of investment holdings assessment

Oisix ra daichi Inc.



Response to TCFD recommendations

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

Governance

Governance structure

- Board reviews management’s performance of climate-related strategy.
- 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 analysis and strategy related to climate risks and opportunities are shared and discussed within the investment function.

Governance structure



Metrics

- We are reporting four metrics of our portfolio to analyze climate-related risks and opportunities.
- On page 39, 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	17,765,083	56,794,960	203.49	180.85	94.24
BM of Japanese equities	18,000,222	57,470,895	206.19	181.08	93.62
Global equities ex. Japan	1,904,333	7,778,466	91.23	222.52	167.88
BM of global equities ex. Japan	1,940,997	8,065,694	92.99	223.31	160.46
Japanese fixed income, corporates	2,922,138	7,798,938	1,596.74	713.77	380.70
BM of Japanese fixed income	3,641,696	8,948,323	1,989.93	920.05	489.66
Global fixed income, corporates	67,581	310,959	124.82	96.88	222.81
BM of global fixed income	76,407	327,008	141.12	179.63	231.80

(Note 1) [GHG emissions (Scopes 1&2)]/Portfolio value

(Note 2) [GHG emissions (Scopes 1&2)]/Σ{(Value of holding/Portfolio value) × Sales revenue}

(Note 3) Σ{(Value of holding/Portfolio value) × (GHG emissions (Scopes 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 weighted average carbon intensity of the equity portfolios is 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

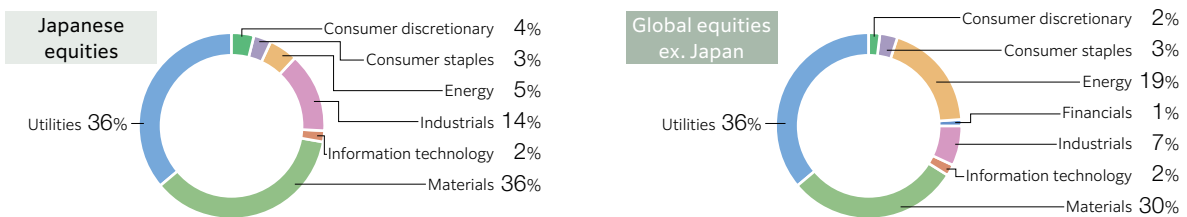
- The weighted average carbon intensity of MSCI ACWI is higher compared to TOPIX. The carbon footprints of sector contributions are similar between TOPIX and MSCI ACWI, but the weighted average carbon intensity of the utilities and materials sectors is higher for MSCI ACWI.

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)

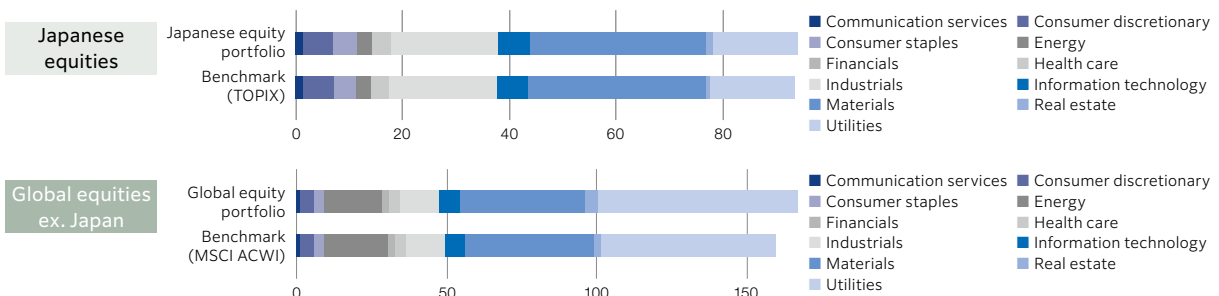
- Contributions on utilities and materials sectors cover about 70% for Japanese equities.
- The largest sector contributions are similar with the global equity portfolio, but the weightings on energy sector is higher.



* Global Industrial Classification Standard (GICS) sector classifications

■ 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 1.7 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

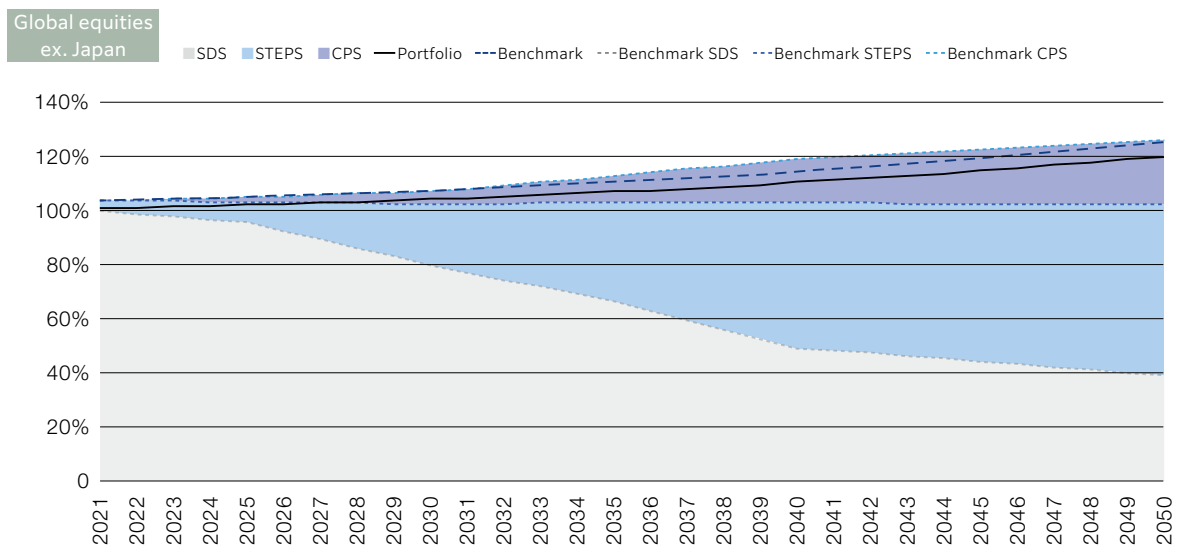
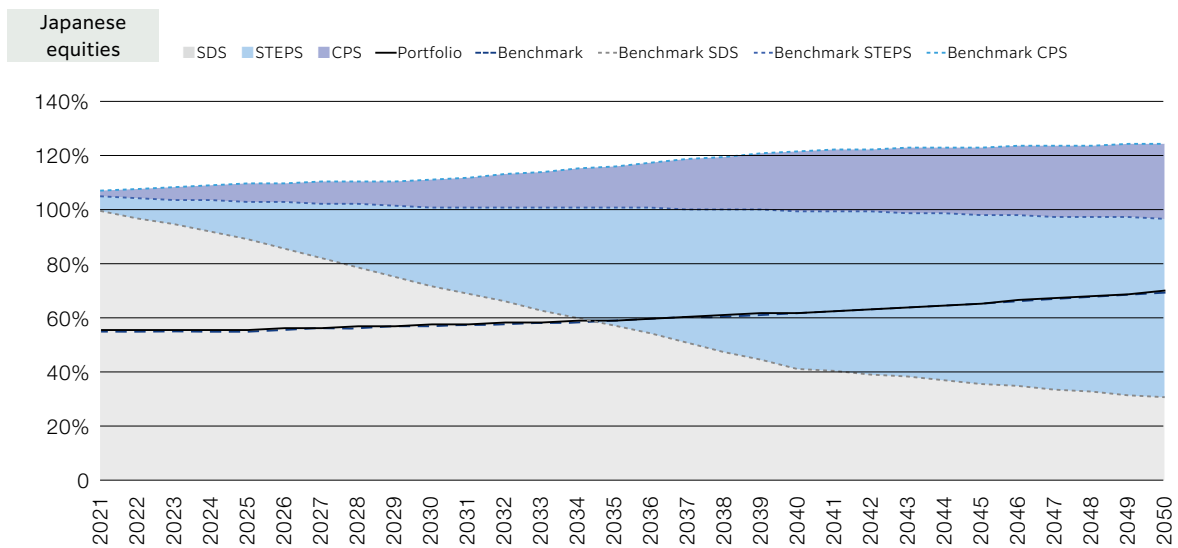
- Both of our Japanese and Global equity portfolios are not in line with the SDS scenario.
- Our Japanese equity portfolio will reach the SDS scenario budget in 2035, and the average temperature is assumed to rise by 2.2°C in 2050.
- As of 2020, our Global equity portfolio has already reached the SDS emission budget, and the average temperature is assumed to rise by 3.1°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)

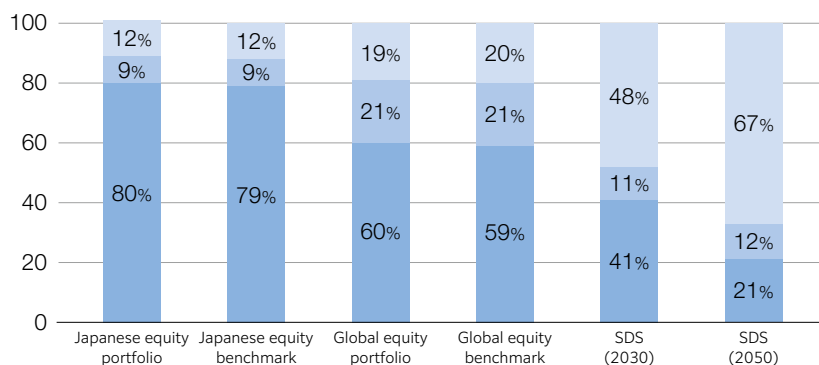


Risk management

Climate risks consist of transition risk and physical risk.

Transition 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.

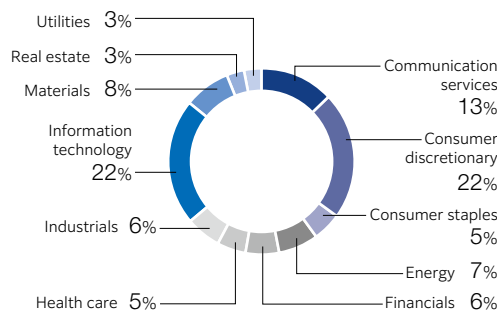
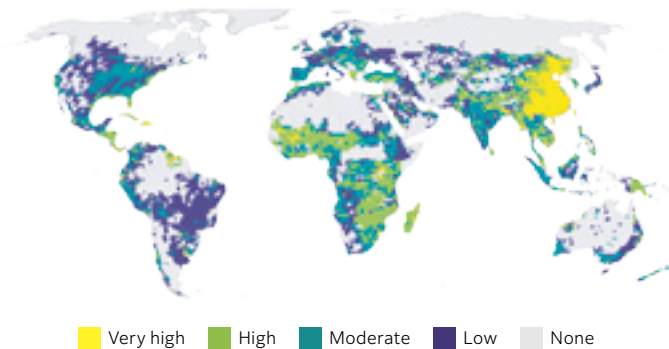


For a decarbonized future economy, the energy generation mix is likely to shift from fossil fuel to renewable sources. Utilities relying on fossil power production without a substitute plan might be subject to higher risk towards climate change regulatory measures and reputational damages.

■ Fossil fuels
■ Nuclear power
■ Renewable energy

Physical risk

In the global equity portfolio we analyze physical risk by geographic region and business sector. In terms of geographic distribution, we estimate the impact of six climatic hazards (tropical cyclone, coastal floods, river floods, wildfire, heat stress, droughts) on corporate finances by the location of property, plant and equipment and also by the area for which sales are recorded.



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.
- Improve reliability on Climate Risk Analysis tools which eventually leads to a better and interactive engagements between the investors and the portfolio companies.
- We will encourage the investee companies on following measures such as:
 - Disclose GHG emissions data through Sustainability Reports, Integrated Reports, CDP platform and TCFD disclosures
 - Declare support for TCFD and enhance disclosure
 - Commit to the SBTi.

Best practice sharing through engagements

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

To realize Resona's "GOOD Governance" through leveraging diverse perspectives and deepening forward-looking discussions

A roundtable discussion was held between responsible investment verification committee meeting members; Chiharu Baba, the committee meeting chairman, Ryo Tsuchida, the corporate law expert, and Shoichi Tsumuraya, the expert of financial accounting and corporate disclosures, to discuss the committee meeting's significant role of enhancing the governance framework and verifying the stewardship activities from the third-party perspective, the evaluation of its current activities and also its future outlook.

Ryo Tsuchida

Member of responsible investment verification committee meeting
Outside Director of Resona Asset Management Co., Ltd.



Chiharu Baba

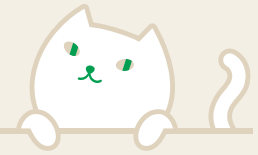
Chairman of responsible investment verification committee meeting
Outside Director of Resona Holdings, Inc.



Shoichi Tsumuraya

Member of responsible investment verification committee meeting
External expert





Repeating the PDCA cycle and making a verification committee meeting work proactively, with an awareness of the different time frames of various issues

Tsuchida: Due to the nature of my profession, I participate in various meetings including the board of directors meetings, and I think this meeting is the one where I really rack my brain. Although I am a scholar of corporate law, we often engage in conversation that is slightly outside the perspective of a corporate law expert, and I am grateful for these excellent opportunities to expand the horizons of my thought and knowledge.

Moreover, the discussions with persons concerned before the meeting are extremely fruitful, and in the meetings, Professor Tsumuraya gives a range of comments from a completely different perspective. Meaning no disrespect to Professor Tsumuraya, but I am surprised how well our conclusions align. I am most interested to find that he has drawn the same conclusions in his mind. The meetings are an excellent opportunity to compare and contrast our perspectives on the company.

Tsumuraya: I am keenly aware of the change over time, and I feel that with each meeting the quality of our discussion is improving. The quality of the proxy voting guidelines has improved, along with the quality of meeting materials and operation. In addition, there has been a dramatic drop-off in the numbers of telephone inquiries from sales divisions of group companies. These and other factors demonstrate that the independence of the Responsible Investment Division has also been strengthened. Frankly speaking, I think that we have passed a milestone and that we are now changing to a better direction every meeting.

Baba: This meeting has the principal objective of post-verifying stewardship activities in general, mainly focusing on proxy voting and the proxy voting guidelines. At the same time, the meeting is also intended to give opportunities to discuss as wide a range of themes as possible through the meeting. Stewardship activities and the corporate governance that they target are still under discussion, and I believe it is extremely important to discuss them with an awareness of a wide range of diverse issues.

In the actual meeting operation, there are two main points to consider in order to have a discussion while recognizing various issues. The first is to allocate time for exchanging opinions formally in addition to the so-called discussion for verification. The second is conscientious “inventory management” of the various opinions and issues that are brought up.

The recognition of newly emergent issues, opinions and comments have a range of different time frames, from those that need to be attended to right away to those that need to be discussed over the medium term. I think it is important to work through a PDCA cycle in the broader sense of the term, making sure to manage these items outside of the meeting as well, deciding on how to deal with them, and reporting on them at the meeting.

In the meetings, the first item for discussion is always a

report on the details of opinions and issues that have arisen up to the previous meetings and the response to them. This method of operation makes the verification committee meeting extremely unique, and it also contributes overall to ensuring that the meeting is a proactive one.

Verifying the stewardship activities is an important activity that has a positive impact on a company

Tsumuraya: I have been very impressed by Professor Tsuchida’s comment. He said that voting on the proposal for election of director is conducted on an individual basis, but in the end, it is a vote to create a team. To give an analogy from baseball, a team comprised entirely of clean-up hitters cannot win. I think this is quite true. Since hearing that, I have been thinking deeply about the diversity of the board of directors. Considering the condition of the overall team, even if a candidate is a high performing individual, and conversely thinking about situations where a person may not have outstanding individual performance, but plays an important role in the team, and so forth.

Tsuchida: I remember very well what Professor Tsumuraya said about how to present and draft the proxy voting guidelines. From the perspective of a legal expert, there is a reason for having rules in place, and I think first about the detailed meaning of the proxy voting guidelines. On the other hand, Professor Tsumuraya’s perspective is to consider that the standard will be conveyed to each company and to consider what the effect of that may be. Ultimately, we have different perspectives, but the reasons that we verify stewardship activities are because we want to have a positive impact on each company. I learned that we must consider matters from this perspective.

This kind of meeting has a tendency to become stiff and formal, but with each meeting that we hold, our meetings continue to improve in quality of discussion because while presiding over the meeting, the chairman is always eager to realize substantial discussion, which motivates everyone tremendously.

Regarding multitiered proxy voting, we will continue deep discussion

Tsuchida: What I noticed myself as a corporate law expert was that it is not always the best choice to reject a proposal. For certain proposals I must prevent situations that would hinder the resolution, even if I cannot agree with them. It means those proposals have multilayered roles. Consequently, the discussion is becoming deeper on multitiered proxy voting, rather than simply approving or rejecting.

In corporate law, proxy voting is just a matter of black or white, like an Othello game, but my impression is that there is a discussion taking place in which we are constantly considering how to act in the gap between black and white.

Tsumuraya: I think we really explore everything in our discussions, but it is not the kind of discussion that produces a clear conclusion. We initially planned one hour for the verification committee meetings, and that soon became two



Chiharu Baba

Has long involvement with corporate management, including experience as Deputy President of Mizuho Trust & Banking Co., Ltd. and appointments as outside director at other companies. Concurrent appointment as Outside Director of Resona Holdings, Inc. (Chairman of the Audit Committee).

hours. Time is always running short, and I think that we have deep ongoing discussions.

Baba: When we look back at the discussion overall, the gap between the current status and the ideal has emerged as an underlying issue. From the perspective of my involvement in management, I can say that corporate management is a living thing, and no aspect of it can ever be “all or nothing.” However, in proxy voting, it ultimately comes down to checking the left or right box. Consequently, the root challenge of our discussions is to establish the best approach in order to reach that choice in an appropriate and constructive manner.

In the sense of issues to be addressed going forward, I think that how we incorporate such considerations into our decisions will be a major point for our discussion overall, and soft law is one example. At the same time, I think that engagement is extremely important, not only in the matter of proxy voting, but also as a means for investors to express their intentions to and communicate with investee companies.

Through shared attentiveness to “GOOD Governance,” we will conduct forward-looking discussions with a constant, keen awareness of issues

Tsuchida: One issue I can think of is that we need a little more time. It is not because the number of themes is increasing, but rather because each individual theme is complex and requires deep discussion.

Up until now the main focus of asset management has

been on returns, but now I think that things such as the SDGs are going to change the way we measure returns. I understand that originally qualitative aspects were forced into a quantitative form and included as costs in calculating the returns, but various methods of calculation have emerged. Estimates can be rigorous or loose, broad or selective, and so forth. There are various views on things. And this means that going forward, asset management companies should become more diverse. I think it will become extremely important that an asset management company considers what kind of viewpoint it will adopt, what direction it will take, and what it will value in selecting and engaging with investees.

Looking ahead, I think that as an issue to be considered over the long term, we must consider what kind of position Resona Asset Management will take, how it will make an appeal of itself to asset owners, and how it will fulfill its social responsibilities.

Tsumuraya: Regardless of whether the number of meetings is increased, there are many themes emerging that require time to discuss, and the number of matters that need to be taken up is also increasing. For example, we are seeing events now that would have been unthinkable a few years ago, such as the case of a TOB of a certain bank, where the president of the acquisition target explained the bank’s response to the proposal in a video. Given the need to practice responsible investment based on this situation, the discussion becomes complex, and there is always a shortage of time.

It is also important to think about our own succession. Because responsible investment and verification thereof will continue indefinitely, it is important that we create a system that can lead into the next generation while maintaining quality. It is a major undertaking to create a succession plan, but from another angle I think it is also significant in that it will continue to have a ripple effect on the Japanese economy overall.

Baba: As I mentioned at the start, discussions at the meeting become extremely fruitful. The meeting discussion has good content, and the meeting itself has become unified in terms of operation and procedure. The participants are recognizing issues very proactively, and we have deeper and forward-looking discussions.

Thinking again about the reasons for the excellent progress of this meeting so far, I think that the biggest factor is that all of the participants share a common awareness of how to realize “GOOD Governance” for Resona Asset Management.

The second point is that the members, or participants, particularly the two professors, make a great combination. Since Professor Tsuchida is an expert in corporate law and Professor Tsumuraya is an expert in accounting and disclosure, they are able to have proper discussions firmly based on their expertise.

The third point is that greater awareness of issues can be had by taking a frontline approach. Resona Asset Management seems to have a keen day-by-day sense of the gap between the reality and the ideal and is able to clearly identify those issues. This is always on the table at our discussions.

Tsumuraya: We have used the word “forward-looking,” but I recall that our discussions fell short of this for the first four or five meetings. Having worked through the issues such as revising wording, looking at compatibility with other company’s standards, and amending contradictions between global equities and Japanese equities, we have now reached a stage where we can consider what to do next.

I think that the themes that we discuss now should be forward-looking ones. Leaving aside whether or not these will be reflected in the proxy voting guidelines, it is important that these themes are constantly developed inside the minds of each of the management team, and I think that such experience of discussions will become a valuable management asset for Resona Asset Management.

Engaging with timely themes continuously while making our forward-looking structure known publicly

Tsumuraya: I think that we have now got enough room in the structure for such forward-looking discussion. When matters arise, rather than immediately going to the proxy voting guidelines, it will become important to build a responsible investment structure that is always able to stay one step ahead. And also it is important to make it known that we have such a structure. I think it is important that we are not simply verifying.

Tsuchida: The proxy voting guidelines are one of our rules, but rules themselves do not have any intrinsic value; rather, they are a reflection of society. The rules are always updated a small step behind society. Soft law has the effect of reducing costs by reducing the time lag and changing the rules in line with social change, and I think this is why the concept of stewardship is currently under the spotlight.

We must be prepared to detect movements in society early and reflect them in the rules. For example, if there is a trend for Board 3.0 to become the mainstream, then our information up to now (Board 2.0) is out of date. I believe that the role of the verification committee meeting is to carefully monitor such movements in society, discuss them with other parties that are monitoring society on the front lines, and decide what to reflect in the mirror by incorporating it into the rules, and prepare our foundation.

Baba: Up until now, we have brought up and discussed issues and problems at the time as quickly as possible. However, I would like to avoid letting the good points of the verification committee meeting become hampered by focusing on one particular theme. While the social situation is continuing to change with time, unique characteristics are constantly popping up in both the economy in the macro perspective and corporate management in the micro perspective. I think that the theme will change with time as we focus on which approach is best for which issue.

In the martial art of kendo, there is a saying that one should be constantly changing between offense and defense, forward and back, and not fixated on protecting one part only. In other words, in the continuously-changing situation, it is not realistic to be constantly attacking or



Ryo Tsuchida

Has a deep insight into corporate law, particularly in Japan, the U.S., and Europe, from his dual standing in both academia and frontline work as a law scholar (Professor, Sophia Law School) and a lawyer. Concurrent appointment as Outside Director of Resona Asset Management Co., Ltd.

constantly defending. While we do have rules, how we respond within these rules is a separate issue. I do not mean that I am thinking about academic perspectives and the frontlines as a dichotomy, rather that it is important to pick up on what is important with regard to the current themes at the time.

Within the exchange of opinions at the verification committee meeting, there are large themes, such as the status of the board of directors and that of the shareholders meetings, and there are also themes such as how to handle the shareholders meetings amid the various restrictions imposed by COVID-19. To give an interim summary at this stage, the fact that the discussions have been constantly converging rather than diverging means that ultimately there is some common ground at the root of them. I would like us to take a relativistic approach when picking up the problems that are relevant at the time as themes and digging deeper on them.

Expecting to accumulate discussions on “what should be talked about” including the position of the company, and to communicate this outcome to asset owners, institutional investors, and society

Tsuchida: Among the issues that companies are bound to come up against, there are external diseconomies, such as the climate change issue. I am sure that at some point we will come under pressure to internalize these external diseconomies. Sometimes when I think about internalized



Shoichi Tsumuraya

Has detailed knowledge of corporate activities such as financial accounting, disclosure, and corporate governance as a Professor, Graduate School of Business Administration, Hitotsubashi University, and a member of the follow-up committees for the SS Code and CG Code.

costs including environmental ones, I wonder as whose representative we should act at the end of the day. Currently we are acting as the representative of asset owners, but I have an academic view that ultimately it may come full circle and settle on the conclusion that we are the representative of citizens. I cannot predict when this will be implemented socially, but I want to keep my eyes constantly open to such things as we engage in our discussions.

Moreover, since asset owners will become less homogenic going forward, a kind of factionalism will arise, and the situation may take on a structure similar to party politics, where certain types of asset owners invest in certain asset management companies. This will lead to consideration about the character of the various asset management companies, and it will be increasingly important to talk about whether Resona Asset Management will make some kind of public communication about what kind of asset management company it is and what kinds of investment it makes. I think an important role for the verification committee meeting going forward will be verifying the kind of understanding of the social environment and the kind of logic supporting the details of communication on such topics.

Tsumuraya: As members of the verification committee meeting, we understand the responsible investment policy of Resona Asset Management. However, in my meetings with corporate IR people, I have felt that the penetration of this policy is limited among investee companies.

I think it is only when we communicate to companies the points of difference about how Resona thinks about

investing that we will be able to establish concrete dialogue that can encourage changes in their management approach or have them take certain opinions on board. I often hear IR people talking about how individual analysts may be focused on asking about short-term performance, but I do not hear them talking about an asset management company and its investment approach. I do not think this problem applies only to Resona Asset Management; rather, it's a medium- to long-term issue for investors considered as institutional investors.

Baba: I hope for two things. The first is that we should talk about even more about "what should be talked about." I believe that it is going to become increasingly important for companies to communicate their corporate philosophies and approaches going forward. In the operation of the verification committee meeting so far, we have verified matters while discussing as widely as possible issues in society that should be talked about, and we will continue to focus on this going forward.

For the second, I also think communication is key. I think this concurs with what Professor Tsumuraya said. Namely, that it is going to be increasingly important that Resona Asset Management demonstrates the ability to communicate its thinking properly to investee companies, asset owners, and to the market overall.

"What should be talked about" sounds extremely prosaic, however, I think that it is extremely important that we thoroughly pursue our ideas regarding stewardship activities and corporate governance and enhance our ability to communicate them properly to the right audience. I hope that Resona Asset Management will fulfill its duty of demonstrating leadership in the discussion about responsible investment in general going forward.

By respecting diverse opinions, the discussion becomes more heated, leading to deeper discussion

Tsuchida: This year, there has been a case in proxy voting where Resona Asset Management approved a proposal for an amendment to the articles of incorporation. It was a rare case where I took an opposing position to your approval. As an academic, my position is that it is better not to insert detailed management policies in the articles of incorporation to avoid excessive restriction on the discretion of company management. I therefore felt strongly opposed to inserting a commitment to management in response to climate change in the articles of incorporation. Subsequently, after various discussions, at the recent shareholders meeting the matter was not clearly positioned as an advisory vote, and it was explained that the company was obliged to insert it in the articles of incorporation after carefully examining its responses and disclosures. It seemed to me that there are diverse views on this. Going forward, I would like to have everyone clearly communicate their different views without restraint.

Tsumuraya: I feel that there is an issue regarding the disclosure of proxy voting results. Since the results are

announced after the verification by the verification committee meeting, the disclosure is made two months later. Since the proxy voting results themselves do not change even after being verified, I think it would be better to provide preliminary disclosure in June to July, or, if individual disclosure is difficult, to disclose the aggregate results only preliminarily. Considering the social obligations of Resona Asset Management as a major asset management company, if institutional investors require companies to proactively disclose information, then it seems fitting that they should also demonstrate their commitment to doing the same themselves.

Baba: I do not mean to sound self-satisfied at all; but I do not think there are many issues with the current state of committee meeting operations. Looking back on the minutes of the meetings, I can see that we have proactively introduced different opinions into the microcosm of meeting, and we have had some truly heated discussions. Rather than simply adhering to form, this meeting holds diverse opinions, and I believe this will support constructive discussions going forward.

As asset management increases its importance, it is also expected to become a significant asset to society

Tsumuraya: I will communicate to my students and to society even more that Resona Asset Management is internally conducting proper objective verification of its

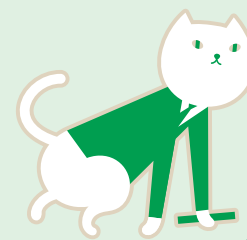
responsible investment and stewardship activities. I consider it one of my roles in society to communicate widely to the mass media and at university lectures and so forth that IR and the capital markets are not a world that is restricted to certain people. And I will continue to do so.

Tsuchida: My research has always been in the field of hard law. And I have been very impressed by the depth of soft law. I think soft law has diverse functions, not only making up for imperfections in the law, but also having a kind of new law creation aspect. In fact, considering its importance, research into soft law has not really advanced in the field of corporate law. The overall positioning of soft law, including the foundational spirit and the underlying way of thinking influenced by corporate law and the securities market, has not really been well defined. Eventually, I would like to define this properly and present it to everyone. Right now, I am in a fortuitous environment for engaging in this, and I aim to give something back to society from the experience I gain here.

Baba: The themes that we discuss in various ways are all of great importance in social and economic activities. I think that asset management is set to become an increasingly important domain, not only in terms of individual corporate management, but also from the perspective of the overall capital markets and financial system. Going forward, it will be important to further enhance our practical capabilities, and I hope that as one of these functions, the verification committee meeting will become a significant support for Resona Asset Management. I hope that the activities of Resona Asset Management will become a significant asset to society.



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

Awareness on issues

- Determine how Resona should meet asset manager expectations pertaining to stewardship activities.
- Determine how to maintain engagement geared to a super-long-term investment perspective in carrying out passive investment, leveraging our strengths.

Our aims: Stewardship activities on passive investment

- | | |
|-------------------|---|
| Objectives | Boosting overall equity market value — efficiency & continuity |
| Path | Determine global issues and local issues as a universal owner
Engagements
Resona's proxy voting |

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.

Perspective on passive investment

- We undertake engagement geared to finding solutions to ESG issues of society overall (mitigating risks and rectifying discounts) under the assumption of maintaining holdings over the long term.
- We undertake engagement with respect to global issues.
- We select topics and engagement targets that will maximize effects of engagement amid a scenario where the number of investee companies varies widely.

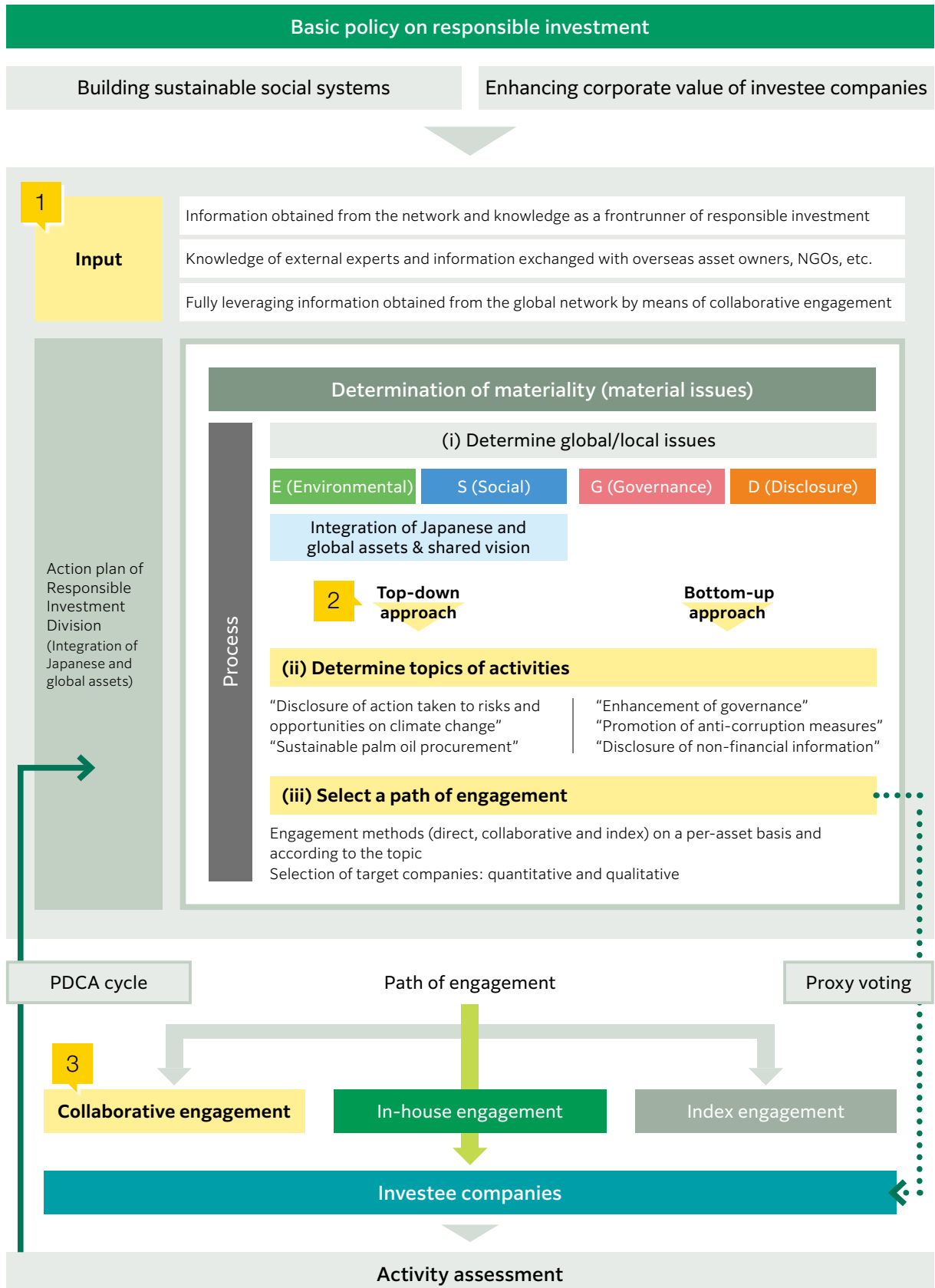
1 Long-term investor perspective (importance)

- Addressing global and local issues
- GHG emissions, supply chain management, board composition, etc.

2 Possibility of change in companies perspective (effectiveness)

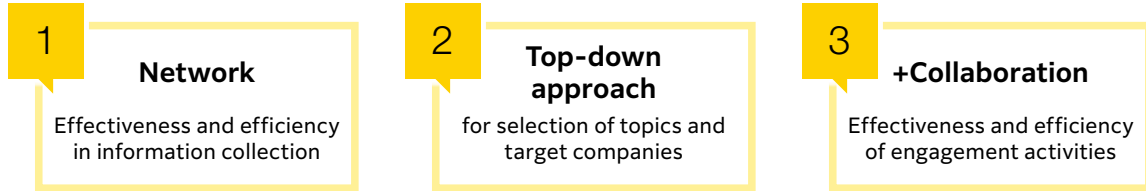
- Awareness → disclosure → dialogue → monitoring
- Collaboration with other investors (Collaborative engagement)

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, various organizations and youth, 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.
Youth	We invited activists from the youth to attend the CSR Review Forum-Japan and exchanged opinions.

Dialogue with the youth that will carry future generations

Our purpose is to be "an asset manager that can provide abundance and happiness to future generations as well as our own." We added the youth to our dialogue as an important stakeholder.

We invited the media and opinions leaders from the youth to attend the CSR Review Forum-Japan, a regular event that we hold for exchanging opinions with NGOs and experts. Our young employees also joined in and exchanged opinions.

We could really feel the importance of having dialogue with diverse stakeholders, and by enabling members of the youth to find out about our activities, we came up with ideas for new activities, making it a meaningful time for both parties.

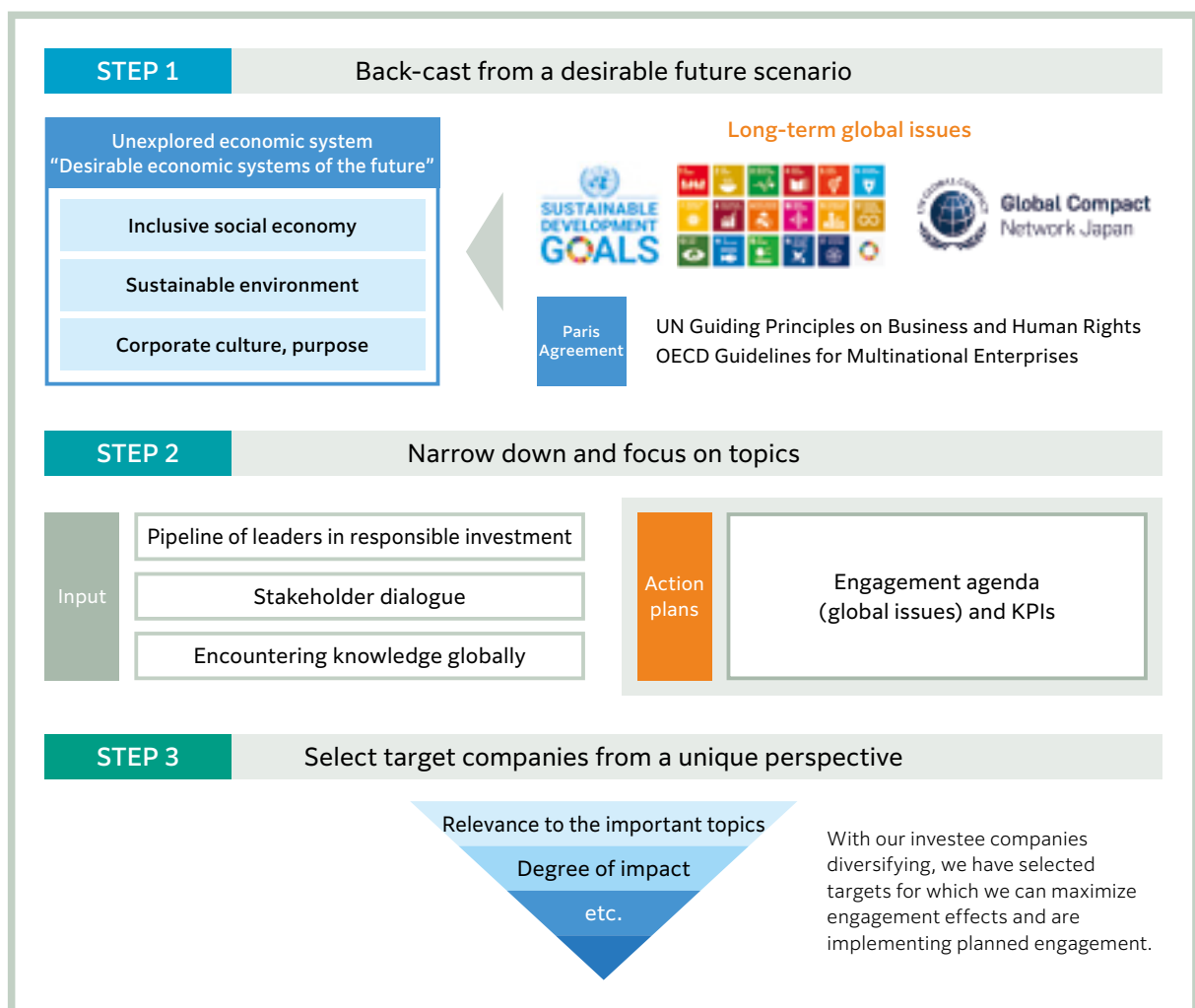


2

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.

We have conducted engagements covering various material issues, such as climate change, forced labor, anti-corruption, and diversity & inclusion. (For further detail, please refer to the materiality matrices on page 20.) Since 2020, we have also conducted engagements focusing on coronavirus response, such as human capital management.

The next page 52 contains a list of respective approaches we have used for individual issues pertaining to ESG+D.

		Issues determined		
Global/local issues	E (Environmental)	<p>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)</p> <p>Participation in Climate Action 100+/AIGCC AUEP A five-year initiative to engage in curbing GHG emissions, strengthen climate-related financial disclosures and improve governance on climate change risks. The initiative is run by the PRI, IIGCC (Europe), Ceres (North America), IGCC (Australia & NZ), and AIGCC (Asia). This has involved persuading 160 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.</p> <p>CDP Non-Disclosure Campaign/Science-Based Targets Campaign Engagements requesting disclosure of environmental information in response to CDP disclosure requests Engagements requesting a response to the Science-Based Targets initiative (SBTi)</p> <p>Plastic (circular economy): Plastic Investor Working Group The main goal of this dialogue is to call on the global target companies to accelerate their work on the 'plastic transition' (to reduce, replace and re-use), to reduce the environmental burden (pollution) of plastic production and use.</p>		
		E (Environmental)	<p>Sustainable palm oil procurement Support the investee companies to understand and to define policies on "Sustainable procurement on palm oil."</p> <p>PRI Sustainable Commodities Practitioners' Group A practitioners' group, which aims to 1) address deforestation as a systemic risk, and 2) discuss and align asks, metrics, and practices in collaboration with technical experts and advisors.</p> <p>Zero-Deforestation Engagement Phase 2 Collaborative engagement established by ACTIAM, a Dutch asset management company and PRI signatory. Collaborative engagement, which aims to reduce company-specific deforestation using Satelligence analysis. Satelligence is a geodata-analytics company which partners with ACTIAM. Plans to engage with 21 target companies already made.</p>	
		S (Social)	<p>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.</p> <p>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.</p>	
	S (Social)	<p>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.</p> <p>PRI Pandemic Resilient 50 Working group for matters related to management of human capital during the coronavirus outbreak Collaborative engagement focusing on three key themes, which are: 1) board accountability, 2) human capital management, and 3) long-term value creation and finance strategy, within the COVID-19 pandemic environment.</p>		
		G (Governance)	<p>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.</p> <p>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.</p> <p>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.</p>	
	D (Disclosure)	<p>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.</p>		
		<p>Integrated reporting Urging companies to provide clear and concise information disclosure and supporting them in such efforts Endorsement and support of statement of collaboration of the International Integrated Reporting Council (IIRC)</p> <p>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.</p>		

(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 (*ippan 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/Disclosure of non-financial information	Initiatives on ESG issues for business 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

Resona's main external activities from November 2020 through November 2021

30% Club	Board member of Japan Investor Group and leader of Best Practice Sub-group
METI/MOE	Member of the "Circular Economy and Resource Circulation for Plastics Finance Study Group"
Japan SDGs Action Promotion Council	Auditing
Co-hosted by FSA/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"
MOE	Member of the "Study Group for Revision of Guidelines for Private Sector Engagement in Biodiversity"
METI	Member of the "Dialogue Towards Long-Term Management and Investment for Sustainable Corporate Value Creation Study Group"
Cabinet Office	Member of the "Discussion Group on Effective Disclosure and Governance of Investment and Utilization Strategies for Intellectual Property"
METI	Member of the "Study Group on Methods for Evaluating Market Formation Capability and Capability Development"
MOE	Member of the "Discussion Group for Greenhouse Gas Emission Calculation, Reporting, and Announcement Systems Based on the Revised Act on Promotion of Global Warming Countermeasures"
MAFF	Member of the "Discussion Group on the Food Industry and ESG Investment"
Japan Association for the 2025 World Exposition	Member of the "Sustainability Expert Committee"

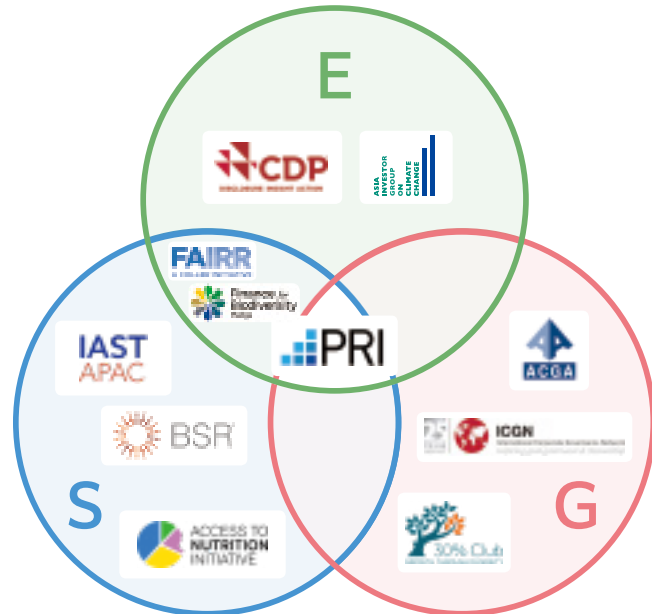
Index engagement

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.

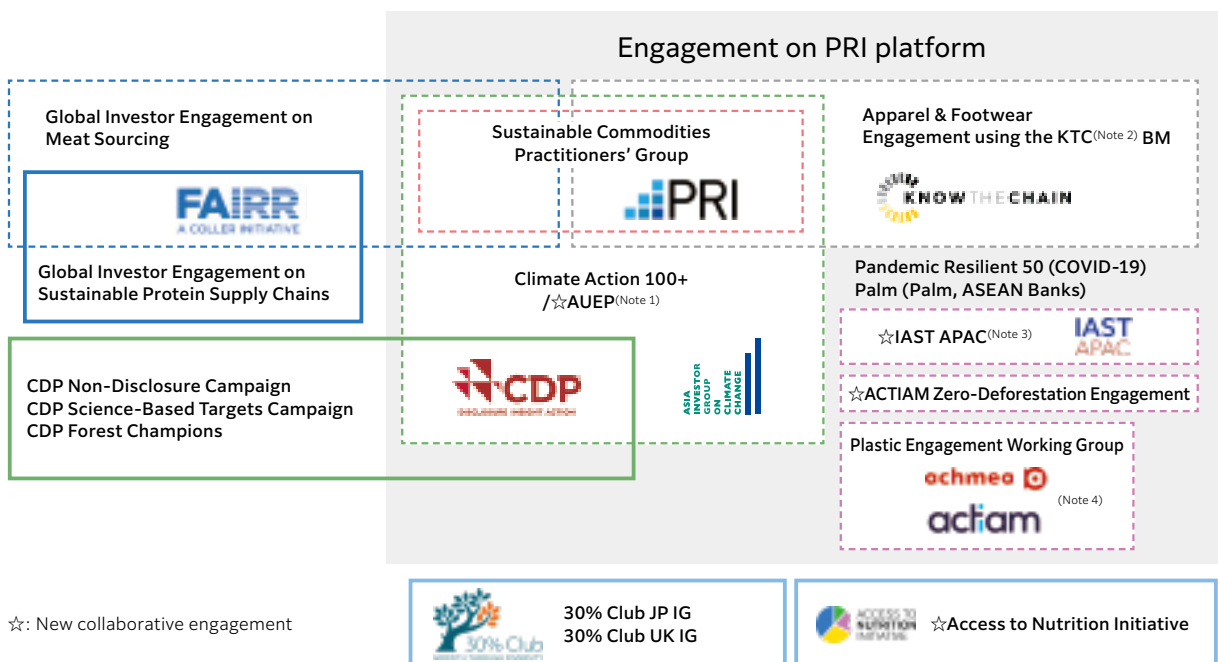
Collaborative engagement — For companies around the world

Resona Asset Management has cultivated several platforms such as PRI, as a pioneer of responsible investor in Japan. In FY2021, Resona Asset Management conducted engagements with global companies, and in addition to one-on-one engagements, this also included various collaborative engagements.

■ Scope of platforms



■ Participating collaborative engagement



☆: New collaborative engagement

(Note 1) AUEP: Asian Utilities Engagement Program
 (Note 2) KTC: KnowTheChain
 (Note 3) IAST APAC: Investors Against Slavery and Trafficking Asia-Pacific Collaborative Engagement
 (Note 4) 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
AIGCC: The Asia Investor Group on Climate Change	Established as part of the Global Investor Coalition (GIC) in Singapore in September 2016. 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.	May 2020
FAIRR: Farm Animal Investment Risk & Return	Established in 2015 by the Jeremy Coller Foundation. A collaborative investor network that raises awareness of the environmental, social and governance (ESG) risks and opportunities brought about by intensive animal agriculture. FAIRR's collaborative mission is to build a global network of investors who are aware of the issues linked to intensive animal production and seek to minimize the risks within the broader food system.	Jan. 2020
BSR: Business for Social Responsibility	Established in 1992, headquartered in San Francisco. BSR™ is an organization of sustainable business experts that works with its global network of the world's leading companies to build a just and sustainable world. With offices in Asia, Europe, and North America, BSR™ provides insight, advice, and collaborative initiatives to help you see a changing world more clearly, create long-term business value, and scale impact.	Nov. 2019
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
ICGN: International Corporate Governance Network	Established in 1995 in Washington DC. The ICGN is an investor-led organization whose mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.	Apr. 2020
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
☆TNFD Forum	Established in June 2021. To develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks, which aims to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.	Nov. 2021
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

■ Collaborative Engagements and Working Groups

Platform	Project Name	Global Issue	Date Joined
PRI	Climate Action 100+	Climate Change	May 2018
CDP	CDP Non-Disclosure Campaign	Climate Change/Disclosure	Apr. 2020
CDP	CDP SBT Campaign	Climate Change/Disclosure	Sept. 2020
PRI (Ceres)	☆Sustainable Commodities Practitioners' Group (Former IISF: Investor Initiative for Sustainable Forests)	Environment/Deforestation/Supply Chain	July 2021 (Sept. 2017)
PRI	☆Sustainable Commodities Practitioners' Group (Former Sustainable Palm & Soy)	Environment/Deforestation/Supply Chain	July 2021 (Oct. 2018)
Achmea IM/ACTIAM	Plastic Engagement Working Group	Environment/Deforestation	Aug. 2020
FAIRR-Ceres	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	Pandemic Resilient 50 Investor Working Group	COVID-19	Aug. 2020
PRI-ICCR	Apparel & Footwear Engagement using the KTC BM	Social/Human Rights/Labor Practices/Supply Chain	Apr. 2019
30% Club UK	30% Club UK Investor Group	Governance/Board Diversity	Dec. 2019
☆ACTIAM	Zero Deforestation Engagement -Phase 2	Environment/Deforestation/Supply Chain	Feb. 2021
☆IAST APAC	Investors Against Slavery and Trafficking Asia-Pacific Collaborative Engagement	Social/Human Rights/Labor Practices/Supply Chain	Mar. 2021
☆AIGCC	Asian Utilities Engagement Program (AUEP)	Climate Change/Disclosure	Apr. 2021
☆ATNI	Access to Nutrition Initiative	Social/Nutrition	June 2021

■ Investor Statements Endorsed and Supported

Platform	Statement	Global Issue	Endorsed and Supported
PRI	PRI Just Transition on Climate Change	Climate Change	Nov. 2018
PRI/CA100+	Investor Expectations on Climate Change for Airlines and Aerospace Companies	Climate Change	Dec. 2019
FAIRR	Global Investor Statement on Antibiotics Stewardship	Sustainable Food Supply Chain	Oct. 2018
KTC/ICCR/PRI	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
KTC/PRI-ICCR	KnowTheChain Investor Statement Investor Expectation on Addressing Forced Labor in Global Supply Chains	Human Rights/Labor Practices/Supply Chain	May 2019
VRF (IIRC/SASB)	Supports business and investor decision-making with three key resources: Integrated Thinking Principles, Integrated Reporting Framework and SASB Standards. These tools help businesses and investors develop a shared understanding of enterprise value and how it is created, preserved or eroded.	Governance/Disclosure	June 2018
☆FFB Pledge	Finance for Biodiversity Pledge	Environment/Biodiversity	May 2021
☆Investor Agenda	The Investor Agenda for Government Action on the Climate Crisis in 2021	Climate Change	May 2021
☆PRI	Public Comment to the SEC on Climate Change Disclosure	Climate Change/Disclosure	June 2021
☆FAIRR	Where's the beef?	Climate Change	Oct. 2021

☆: New

Engagement plan for FY2021

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 2021 to June 2022)

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.

Equity/Passive investment (Chapter 4)

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.

Equity/Active investment (Chapter 5)

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.

Fixed income/Active investment (Chapter 6)

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.

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

Engagement agenda for FY2021

Climate change / Decarbonization

- **Consideration to committing to the Net Zero Asset Managers Alliance, and continuation of the Climate Action 100+ and AIGCC Asian Utilities Engagement Program (AUPEP)**
Investors are encouraged to disclose climate change strategy on their investment portfolios. In addition to our activities through Climate Action 100+, CDP engagement projects and the AIGC AUPEP, we are considering committing to the Net Zero Asset Managers Alliance.



Sustainable food supply chains (FAIRR) / Food sustainability (ATNI)

- **Continue activities on Access to Nutrition Initiative (ATNI)**
Collaborative engagement with 20 global target companies using the 2021 ATNI global index.
- **Continue collaborative engagement on the FAIRR initiative**
We will continue our following activities:
 - “Global Investor Engagement on Meat Sourcing,” which calls for activities to mitigate 1) the supply chain risk for meat and dairy products, 2) climate change and water safety risks.
 - “Sustainable Protein Supply Chains” to promote the formation of sustainable food supply chains by diversifying protein sources.



Biodiversity pledge / Zero-deforestation

- **Participation in Finance for Biodiversity Pledge working group and the TNFD Forum**
We are having various discussions regarding the evaluation systems for biodiversity. As we participate in various working groups and the TNFD Forum in endorsement and support of the Finance for Biodiversity Pledge, we aim to gather more information.
- **In Japan, we will continue dialogue about procurement of sustainable palm oil and timber.**
- **Continuous knowledge and information gathering from the PRI Sustainable Commodities Practitioners' Group**



Labor practices / Human rights

- **Continue engagements on Investors Against Slavery and Trafficking APAC (IAST APAC) and KnowTheChain**
We will ascertain labor practices in corporate supply chains and promote corporate information disclosure and ascertainment of risks.



Circular economy (Marine plastic)

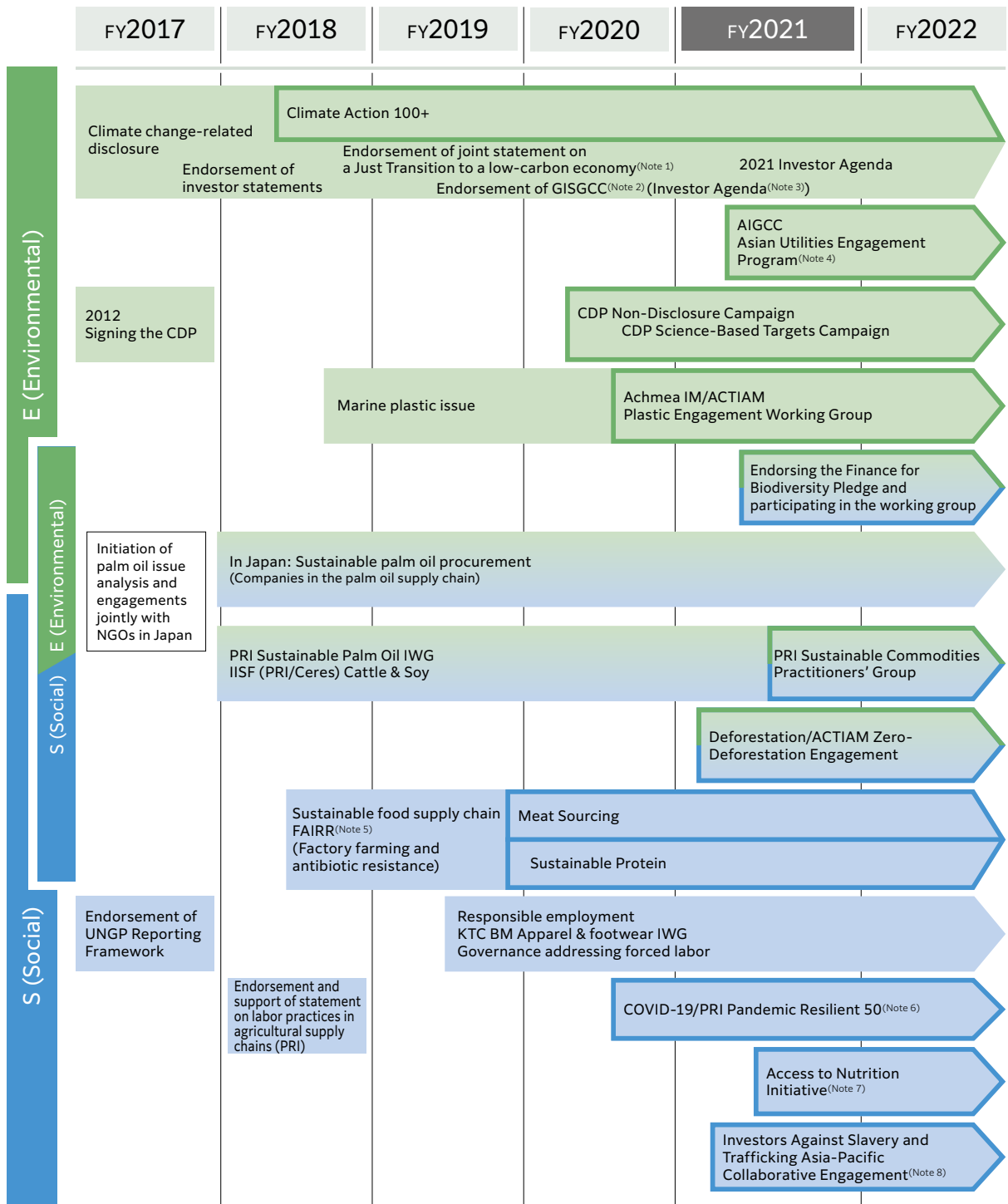
- **Continue activities on Plastic Engagement Working Group**
The engagement issues on plastic recycling are expanding from recycling, to climate change, and to zero-deforestation.

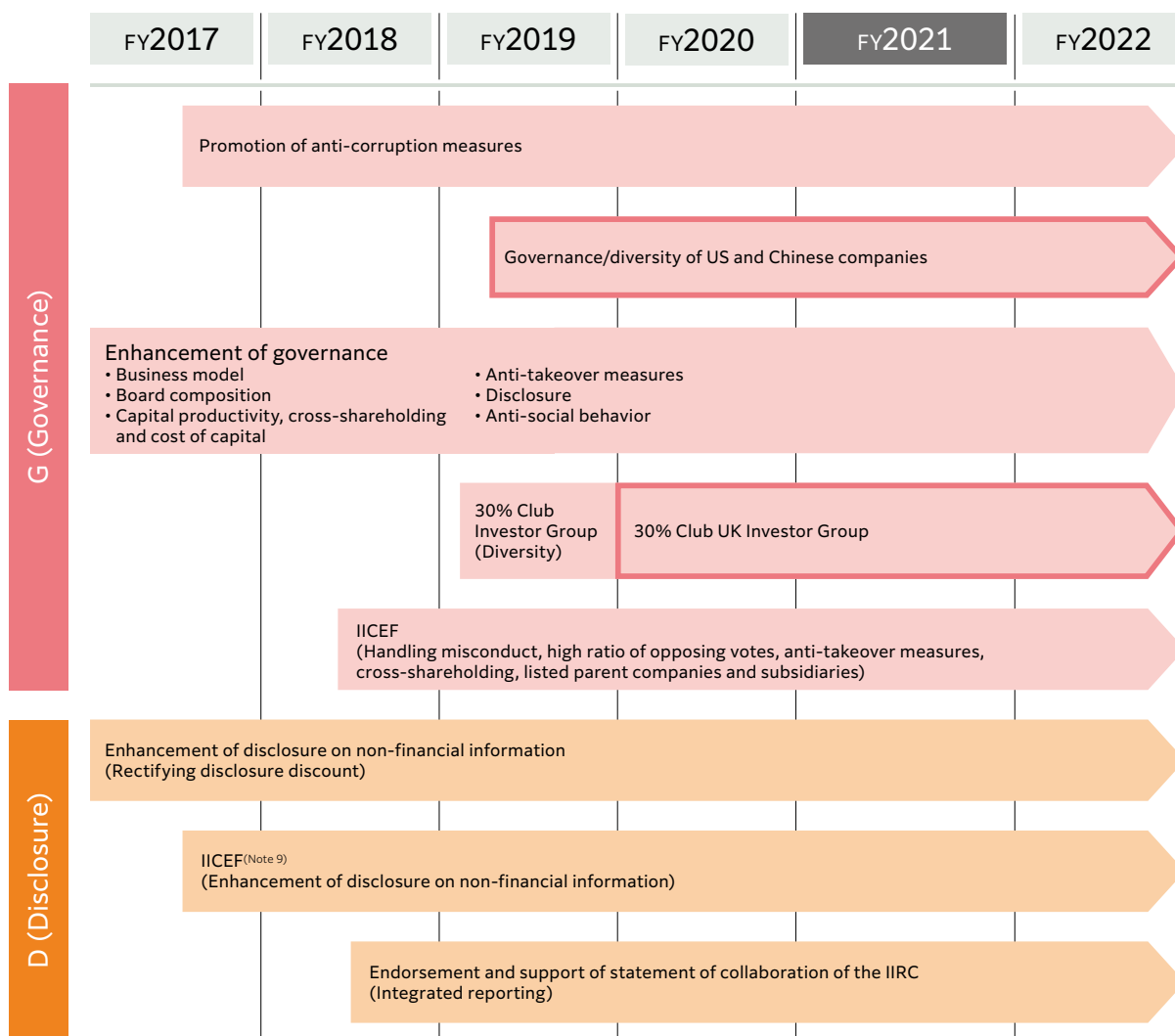


Determining issues and action plans

In FY2022 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 embraces 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 to ensure effectiveness of the Paris Agreement. The joint statement endorsing and supporting 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 (GIC, made up of four organizations: IIGCC, AIGCC, IGCC, and Ceres).

(Note 4) AUEP: Asian Utilities Engagement Program, a collaborative engagement to promote five commitments among five Asian utility companies targeted.

(Note 5) FAIRR: Farm Animal Investment Risk and Return

(Note 6) COVID-19/PRI Pandemic Resilient: 10 companies participate, including CalSTRS. An engagement working group targeting 50 global companies.

(Note 7) ATNI: Suppresses negative impacts on the working population and economy associated with malnutrition (under and over nutrition) and explores risks and opportunities.

(Note 8) IAST APAC: Requires companies to identify modern slavery in their businesses and supply chains and take a range of measures to deal with it.

(Note 9) IICEF: Institutional Investors Collective Engagement Forum

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



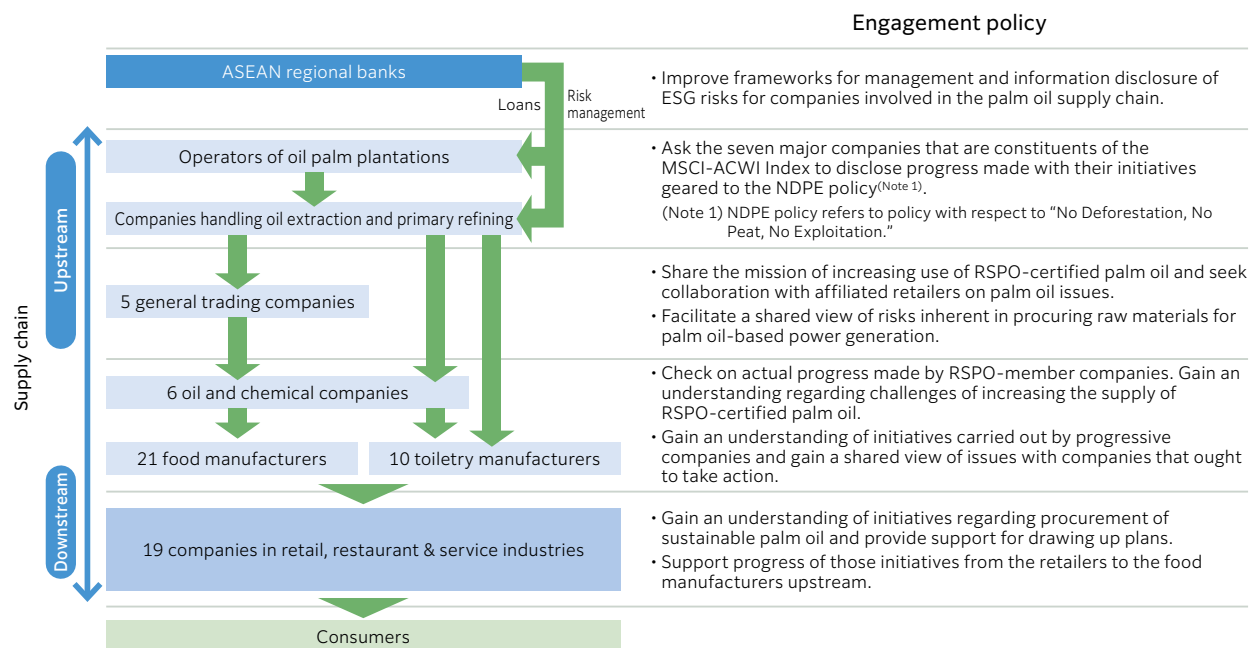
Powdered milk



Detergents and cosmetics

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.

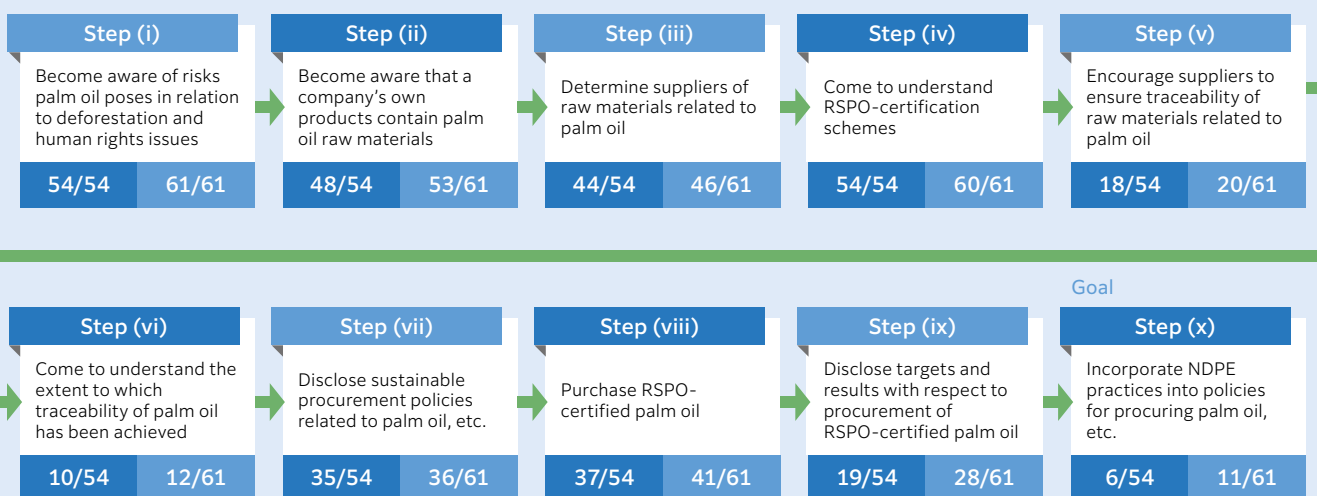


Engagement process

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 61 companies targeted, and progress made.

Start



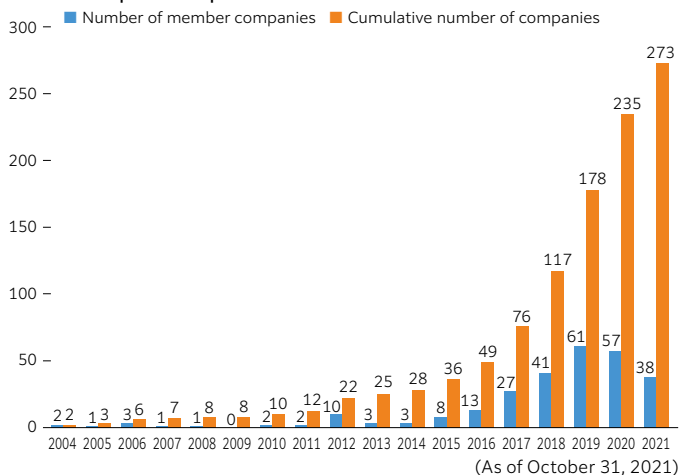
(Note 1) This includes not only palm oil but also CSR-based procurement policies, etc.

(Note 2) Survey by Resona Asset Management. Confirmed for companies engaged with up to June 2021 either at the time of visit, or by checking websites, integrated reports, or CSR reports, etc.

■ indicates results for FY2020, ■ indicates results for FY2021.

During the 12-month period between July 2020 and June 2021, four of the 61 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.



Food sustainability (Sustainable food supply chain)

From June 2021, we have participated in collaborative engagement facilitated by Access to Nutrition Initiative (ATNI). This involves conducting engagement with approximately 20 global target companies following the assessment conducted by ATNI.

The aim of the engagement is to persuade the companies rated by ATNI to improve their performance on nutrition and demonstrate their positive impact on consumers' health by improving their products and business practices.

Resona's actions

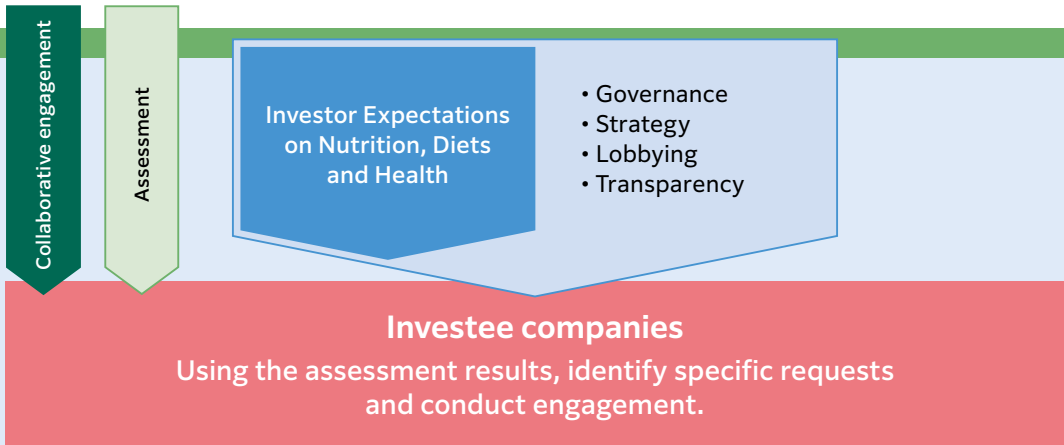
Engagement with global companies

September 2021: Commenced first round engagement with global companies



June 2021: Participated in Access to Nutrition Initiative

In the 2021 Global Index, ATNI assessed twenty five leading food and beverage manufacturers on their commitments, practices, and disclosure for seven categories: governance, products, accessibility, marketing, lifestyles, labeling, and engagement. The assessment included product profile assessment and a marketing index regarding breast-milk substitutes and complementary foods.




Tokyo Nutrition for Growth Summit 2021



At the Tokyo Nutrition for Growth Summit 2021 (N4G), held on December 7-8, 2021, Resona Asset Management President Akihiko Nishioka announced the N4G Investor Pledge on behalf of signatory investors.



We used the FAIRR platform to participate in engagements aimed at mitigating livestock product supply chain risks and associated climate change and water safety issues.



December 2019: Joined the engagement on meat sourcing


Engagements requesting six major fast food companies to take urgent action to mitigate risks associated with climate change and water in relation to farm animal and dairy supply chains.

Collaborative engagement

Provide encouragement to six major restaurant and fast food companies

Board-level control of risks associated with the protein supply chain

- Skills development for corporate sustainability managers
- Selection of disclosure framework
- Encourage the investee companies to engage with major suppliers to address environmental issues
- Setting SBT^(Note 1) with regard to climate change and water



January 2020: Joined the engagement on sustainable protein supply chains

Global investor engagement focused on encouraging global food companies to transition protein portfolios away from an over-reliance on animal proteins and towards diversified and sustainable alternative protein sources.

Collaborative engagement

Provide encouragement to 25 companies in the food supply chain

Promotion of corporate information disclosure in relation to a shift, under the “1.5°C scenario”^(Note 2), to plant and other protein products as substitutes for livestock protein products.

Engagement case

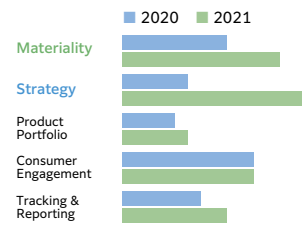
Dialogue with an Australian retail chain → Resulting in improvement of assessment regarding materiality and strategy

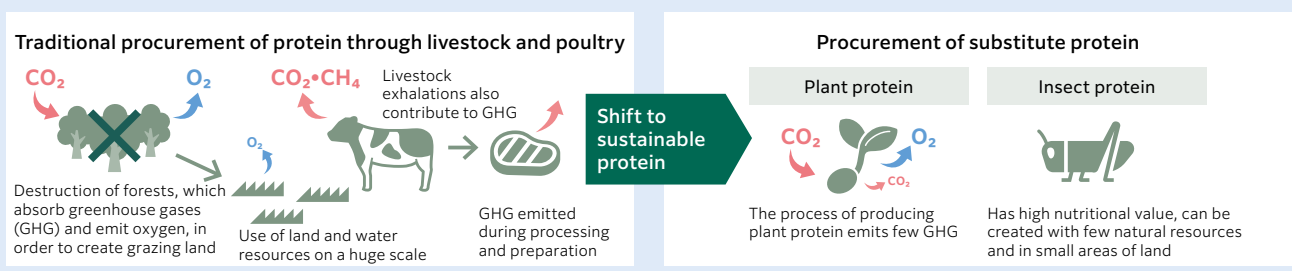
Materiality score

- The improved materiality score reflects an assessment that the new strategy aims at a transition of the product portfolio.
- The implementation of TCFD-aligned Scenario Analysis is also highly rated.

Strategy score

- With the approval of the Scope 3 targets by the SBTi in 2020, the strategy score has increased.
- In the previous year, the company did not express any intention to set Scope 3 targets.





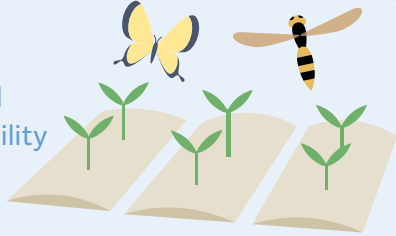
(Note 1) Science-Based Targets: Targets, with a 5-15 year horizon, set by corporations with the aim of reducing GHG emissions to a level congruent with that required by the Paris Agreement (which seeks to control the rise in global temperatures from pre-industrial levels to well below 2°C, and preferably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

Biodiversity

We have received numerous benefits from biodiversity...

Pollinators and food sustainability



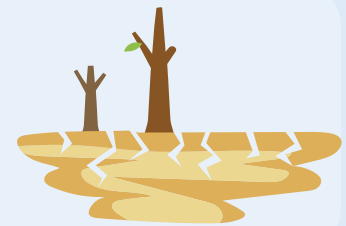
Microorganisms and medicine



Deforestation and the rise of new transmissible diseases



Deforestation and changes in regulating services (water sources, etc.)



August 2020

Participated as a member of the Ministry of Agriculture, Forestry and Fisheries “New MAFF Biodiversity Strategy Study Group”

February 2021

Participated as a member of the Ministry of Environment “Study Group for Revision of Guidelines for Private Sector Engagement in Biodiversity”

April 2021



Participated in Zero Deforestation Engagement/Phase 2 led by Dutch asset management company ACTIAM

- Engagement requiring action to stop deforestation and strengthening of traceability.
- Recommends disclosure of information aimed at zero deforestation to investee companies from a perspective of financial risk due to climate change, biodiversity loss, and deforestation.
- Specifically, recommends disclosure of supplier lists and disclosure of information pertaining to transactions with companies related to palm cultivation in Malaysia.
- ACTIAM receives satellite images related to deforestation provided by Satelligence. It conducts collaborative engagement with investees that disclose supplier lists using satellite image data.
- The engagement is with 20 global food and consumer finance companies.
- There are 13 participating companies, with total of EUR2 trillion in assets under management.

May 2021



Endorsed and supported Finance for Biodiversity Pledge

- At the 15th Conference of the Parties (COP 15, Phase 1 held in October 2021 and Phase 2 to be held in Spring 2022) to the Convention on Biological Diversity (CBD), world leaders have been asked to agree with effective measures for reversing nature loss in this decade in order to ensure ecosystem resilience.
- As a financial institution we have pledged our dedication to collaboration and knowledge sharing, engaging with companies, assessing impact, setting targets and reporting publicly by 2024 at the latest.

December 2021



Participated in TNFD Forum

- Launched in June 2021. A forum endorsed or recognized by the G7 Finance Ministers, the G20 Sustainable Finance Roadmap and the G20 and G7 Environment and Climate Ministers.
- Participating organizations include 250 companies and asset managers.

Mission

- To develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks.
- To support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

Circular economy (Policy engagement in Japan)

Engagement on marine plastic issue

We continued the dialogue on the marine plastic issue with 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.

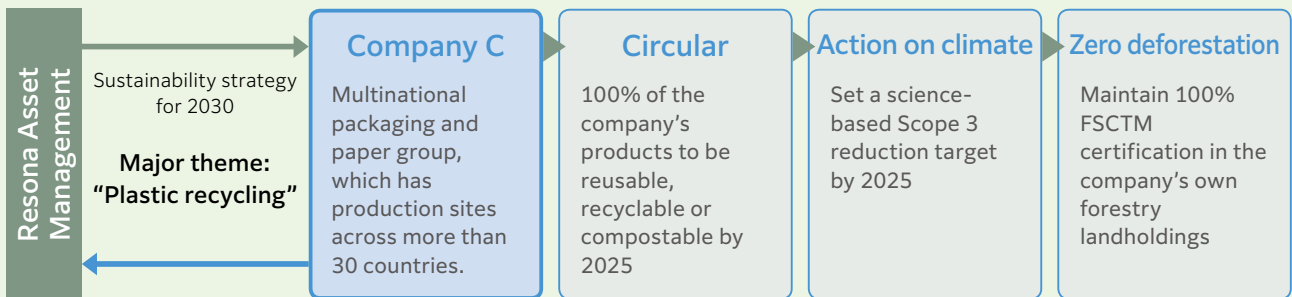
Participation in the Plastic Engagement Working Group

Since August 2020, we have joined Plastic Engagement Working Group, a collaborative engagement working group which was set up by Achmea Investment Management and ACTIAM.

The main goal of this dialogue is to call on the 12 global target companies to accelerate their work on the 'plastic transition' (to reduce, replace and re-use), to reduce the environmental burden (pollution) of plastic production and use.

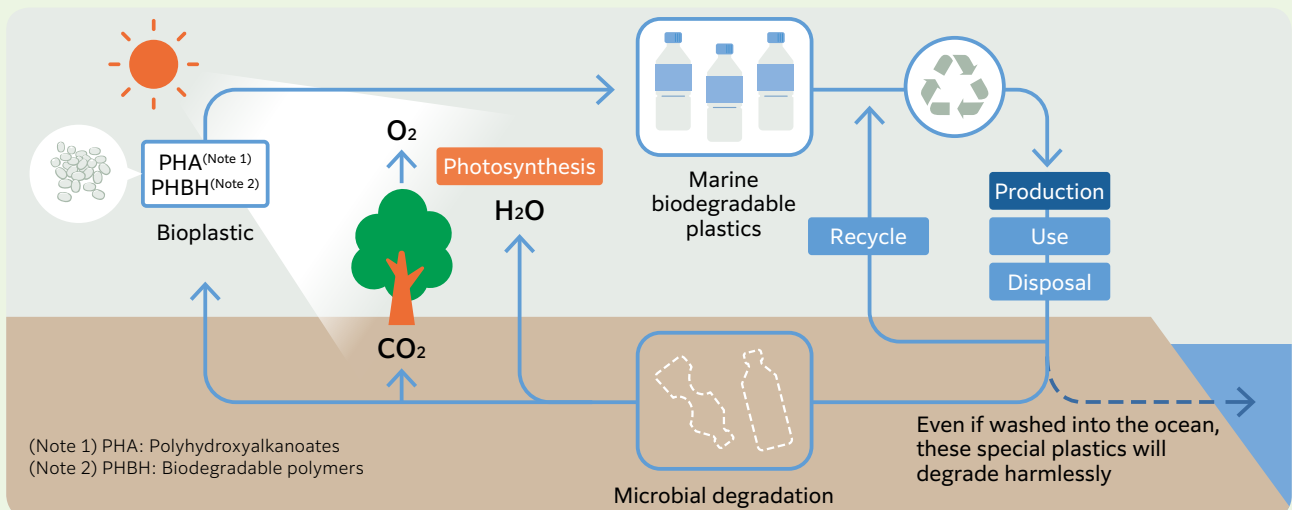


Engagement case



Dialogue with policymakers

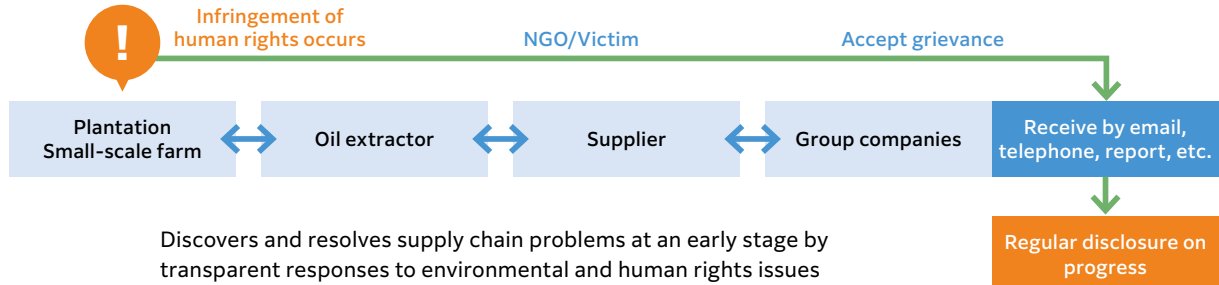
We participate as a member of the Circular Economy and Resource Circulation for Plastics Finance Study Group (started in May 2020) hosted by the Ministry of Economy, Trade and Industry and the Ministry of the Environment. Furthermore, in January 2021, the joint meeting between the Ministry of Environment 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 made statement summarizing its position on "The Status of Plastic Resource Recycling Measures Going Forward." In order to increase the efficacy of these initiatives going forward, we will conduct activities in accordance with the guidelines.



(Note 1) PHA: Polyhydroxyalkanoates
(Note 2) PHBH: Biodegradable polymers

Grievance mechanism

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

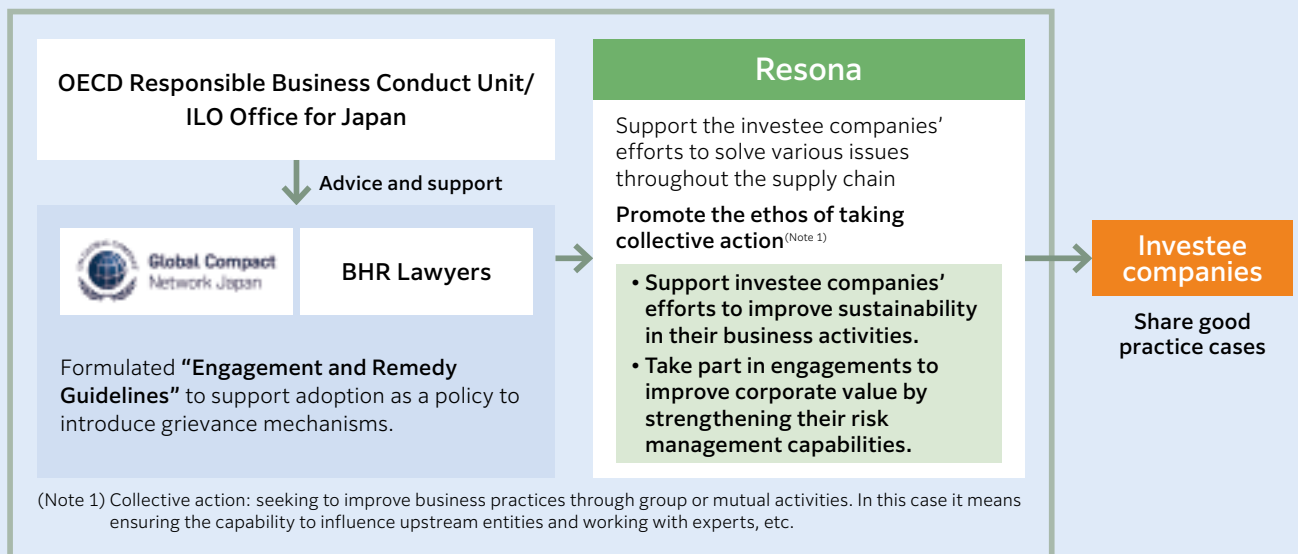


Why are guidelines and collective action necessary for the mechanism?



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.

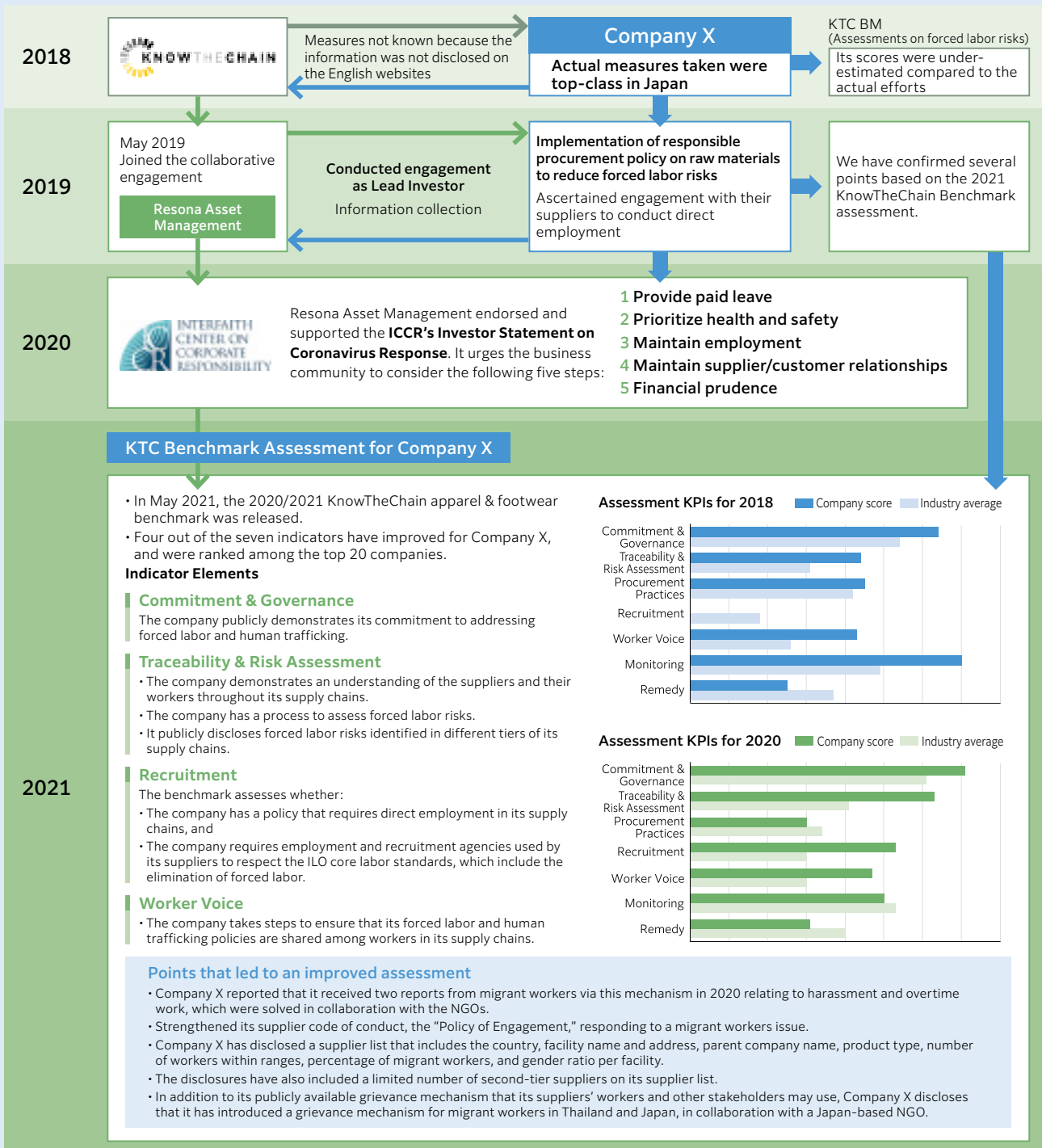


National Action Plan (NAP) on Business and Human Rights

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.

Board diversity



30% Club Japan (Established in May 2019)

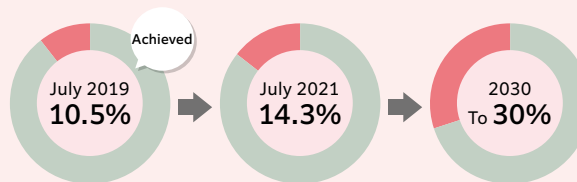
The 30% Club was established in the United Kingdom in 2010, and is a global campaign whose objective is to increase the proportion of female directors. It has expanded into 18 regions and countries, including Japan, and has made a significant contribution to raising the percentage of female directors.

Gender diversity in top-level corporate management



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 2021

Held meetings for exchanging opinions under the leadership of the Best Practice Sub-Group	We have held/conducted three meetings with female directors who were registered to the Japan Federation of Bar Associations and the Japanese Institute of Certified Public Accountants. The purpose of the meeting was to gather information on how the board of directors is working to strengthen their governance and penetrate gender diversity at the front line of management.
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

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	20/23	1/15	1/23	3/15	12/23	4/15	5/23	
Use of external consultants in relation to hiring		Appointment of women on the board		Disclosure of pay gap		Educational program		
2/15	2/23	7/15	21/23	0/15	0/23	3/15	3/23	

■ indicates results for FY2020, □ indicates results for FY2021.

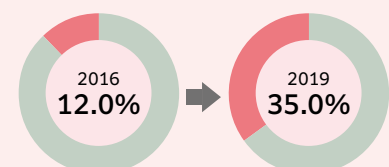
● Participation in UK IG since December 2019

In the United Kingdom, the proportion of women on boards of directors at FTSE350 companies reached 35% in September 2019.

In international markets, there is an increasing focus not only gender diversity, but also racial diversity.

Initiatives on racial diversity have also started at the 30% Club UK Investor Group. The investor statement, "Statement on Addressing Racism and Call to Action," was released in November 2021.

Trends in proportion of female directors in the United Kingdom



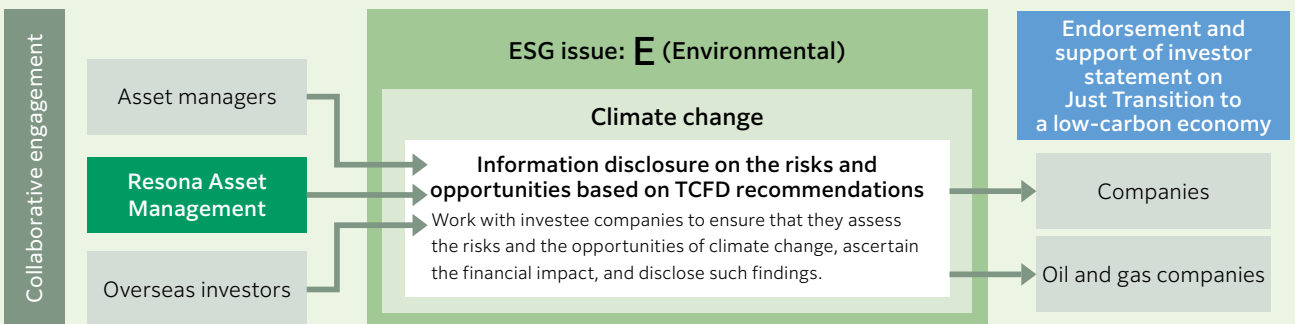
Climate change/TCFD/ Climate Action 100+



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 investor action will focus on the most substantial greenhouse gas emitters (considering emissions across the value chain), as well as those companies that investors believe present the greatest climate related risk to their portfolios. 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



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

	Progress			Scenario analysis
	Medium-term target (2030)	(2040)	Long-term target (2050)	
Company A	▲40% CO ₂ emission reduction from new cars by 2022 (compared to 2000 for Japan, US, EU, China) 100% electrified new vehicle by early 2030s	-	▲90% CO ₂ emission reduction from new cars compared to 2000 by 2050 Achieve carbon neutrality	Accreditation under Science Based Targets initiative (SBTi)
Company B	2/3 electrification on global automobile sales by 2030: Developed countries' sales ratio of EV/FCV to 40%	Global sales ratio of EV/FCV to 100%	▲50% total corporate CO ₂ emission reduction (compared to 2000) Achieve carbon neutrality	• Strategy developed for 2°C and 4°C scenarios • Risk/opportunity analysis processed for 1.5°C scenario

AIGCC Asian Utilities Engagement Program (AUEP) (April 2021)

Collaborative engagement targeting 5 of Asia's "systematically important utility emitters" outside of Climate Action 100+. Seeks commitments from boards and senior management of target companies to take the following 5 actions. Consists of total 13 institutions, with total AUM of 8.8 trillion USD.



- **Implement a strong governance framework** that clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- **Reduce GHG emissions across the value chain, consistent with the Paris Agreement.** We expect companies to have a clear decarbonization strategy for the 2030, 2040 and 2050 time frames including commitments to no fossil fuel generation, with coal phase out by 2040. No new coal domestically or overseas.
- **Enhance corporate disclosure** in line with the final recommendations of the TCFD or SASB.
- **Outline physical risks to the company** and relevant adaptation strategies to mitigate these risks.
- **Public policy engagements and lobbying activities:** Board-level oversight of public policy positions regarding environmental legislation and of any lobbying activities, with full disclosure of such positions and activities undertaken either directly or indirectly via industry associations

COVID-19 Governance after the pandemic

Collaborative engagement “Pandemic Resilient-50 (PR-50)” (Since August 2020)

The coalition is comprised of nine institutional investors with more than \$3.8 trillion assets under management.

The coalition has planned to conduct a multiyear engagement to the 50 target companies which were thought to be affected by the COVID-19 pandemic.

Although the group was initially established under the PRI platform, the engagement strategy and the target companies were determined by the participants.

The coalition has identified the three key themes, which were board accountability, human capital management, and long-term value creation and finance strategy.

Members of Pandemic Resilient-50

- Achmea Investment Management (Netherlands)
- APG Asset Management NV (Netherlands)
- BNP Paribas Asset Management (France)
- British Columbia Investment Management Corporation (BCI, Canada)
- California State Teachers’ Retirement System (CalSTRS, US)
- Domini Impact Investments LLC (US)
- Etica Funds (ETICA SGR S.p.A., Italy)
- Legal & General Investment Management (UK)
- Resona Asset Management (Japan)

- ▶ By October 2020: Initial letters sent to 34 companies
- ▶ By mid-August 2021: First round engagements conducted with 35 companies

	Engagement themes (topics) & characteristics	Engagement case Company A (Electronic components)
Board accountability/ Holding boards accountable for:	<ul style="list-style-type: none"> • Board considerations to the contingency plan and reputational risk. • How does the board obtain an independent view of workforce health and wellbeing, including supply chain workers, subcontractors and/or independent contractors? • Good governance and best practice under the pandemic. 	<ul style="list-style-type: none"> • No large influence by the pandemic. • The management has learned the necessity of virtual communication network. Has established the Task Force at head office, and set up a system to monitor world-wide remote ratio and utilization rate. • Seeking for a new business model. • Conducting re-organization for responsible executives to set management objectives and strategy. • Diversity of the board compositions and inclusions of executives is in progress.
Human capital management	<ul style="list-style-type: none"> • Which employee benefits and/or workplace health and safety practices adopted during the pandemic will be made permanent (e.g., leave policies, hazard pay, childcare benefits)? • Does the company have communication channels and grievance mechanisms in place for its workforce aligned with international standards? • Status of governance of the board regarding diversity and management of human capital, and introduction of best practice examples. 	<ul style="list-style-type: none"> • The group implements measures in accordance with the Fundamental Human Rights Convention of the ILO and other international conventions. Good considerations on paid leave, fair wage structure, diversity, equity and inclusion.
Long-term value creation - financial alignment	<ul style="list-style-type: none"> • Considerations related to executive compensations, capital expenditures, dividend, as well as stock buybacks, mergers and acquisitions. • Considerations related to debt reductions and government assistance. • How the company is structuring its capital allocation to provide for long-term resilience. 	<ul style="list-style-type: none"> • Established remuneration committee, equity grant, has set ROE target. • Negligible impact on business due to sound financial structure already in place. Shareholder returns are overall at usual level. • No receipt of subsidies.

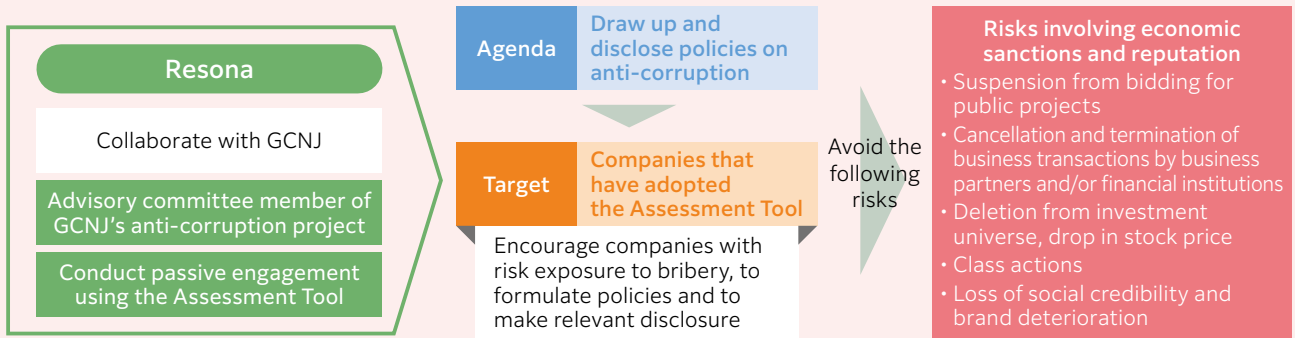


Closing of the engagements	<ul style="list-style-type: none"> • In December 2021 the formal collective engagement phase of the Pandemic Resilient-50 came to a close. • Each investor will continue their engagements on an individual basis after 2022.
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Disclosure 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

Current awareness and future activities

 Joint meeting among GCNJ, the Anti-Bribery Committee Japan (ABCJ), and investors (Resona)
- June 2019

Importance of sharing current conditions and issues and promoting information disclosure

GCNJ Anti-corruption Subcommittee, GCNJ Secretariat
 Meeting among ABCJ, Resona and the signatory companies aimed at:
 Mapping the follow-up to promote anti-corruption activities and ensuring information disclosure based on the Tokyo Principles
- 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”
- September 2021 **Speech at GCNJ's anti-corruption seminar**
- October 2021 **Speech at GCNJ Anti-corruption Subcommittee**

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

- End of FY2021

Promoting regular workshop dialogues among companies and investors

Anti-corruption workshops with experts

Anti-corruption enhancement month campaign and symposium (every October)



Constructive dialogue and engagement with investee companies (Passive investment)

At Resona Asset Management we distinguish the definitions between the dialogue and engagement:

Dialogue: Promoting mutual understanding through communication with the companies, and

Engagement: Achieving results by deciding on issues to be addressed and discussing such issues with the aim of finding solutions.

The Responsible Investment Division actively conducts dialogue and engagement to encourage the companies to increase corporate value and to achieve sustainable growth from a medium- to long-term perspective. In order to overcome this objective, we monitor financial and non-financial aspects of the investee companies.

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, passive managers, engage under the policy to extensively maintain the equity positions, and that there are limited possibilities to sell the position.
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During July 2020 to Jun 2021, the Responsible Investment Division initiated approximately 4,000 cases of contact with investee companies. Out of such contact, the number of dialogues and engagements with the investee companies is stated in the table below.

[Total number of dialogues and engagements conducted]

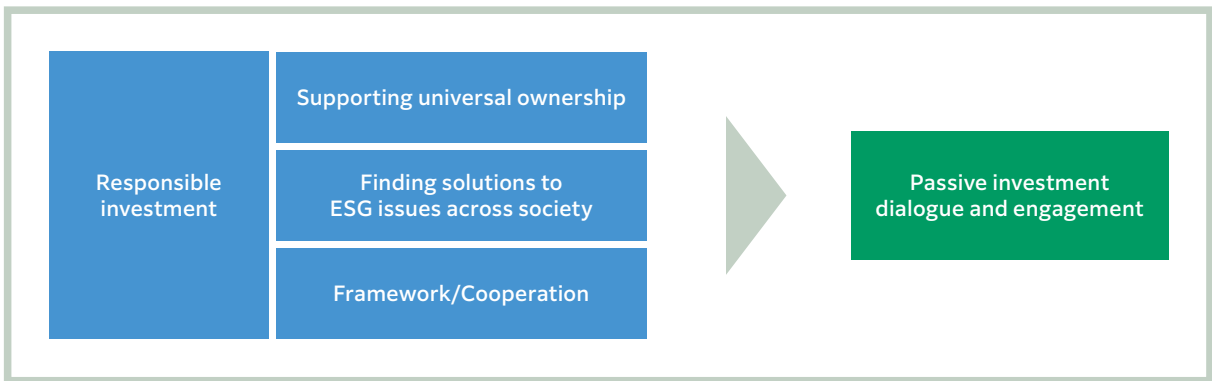
368

Equity/Passive investment [Responsible Investment Division]

Number of dialogues (number of companies)	Number of engagements (number of companies)
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61 (55)

307 (239)

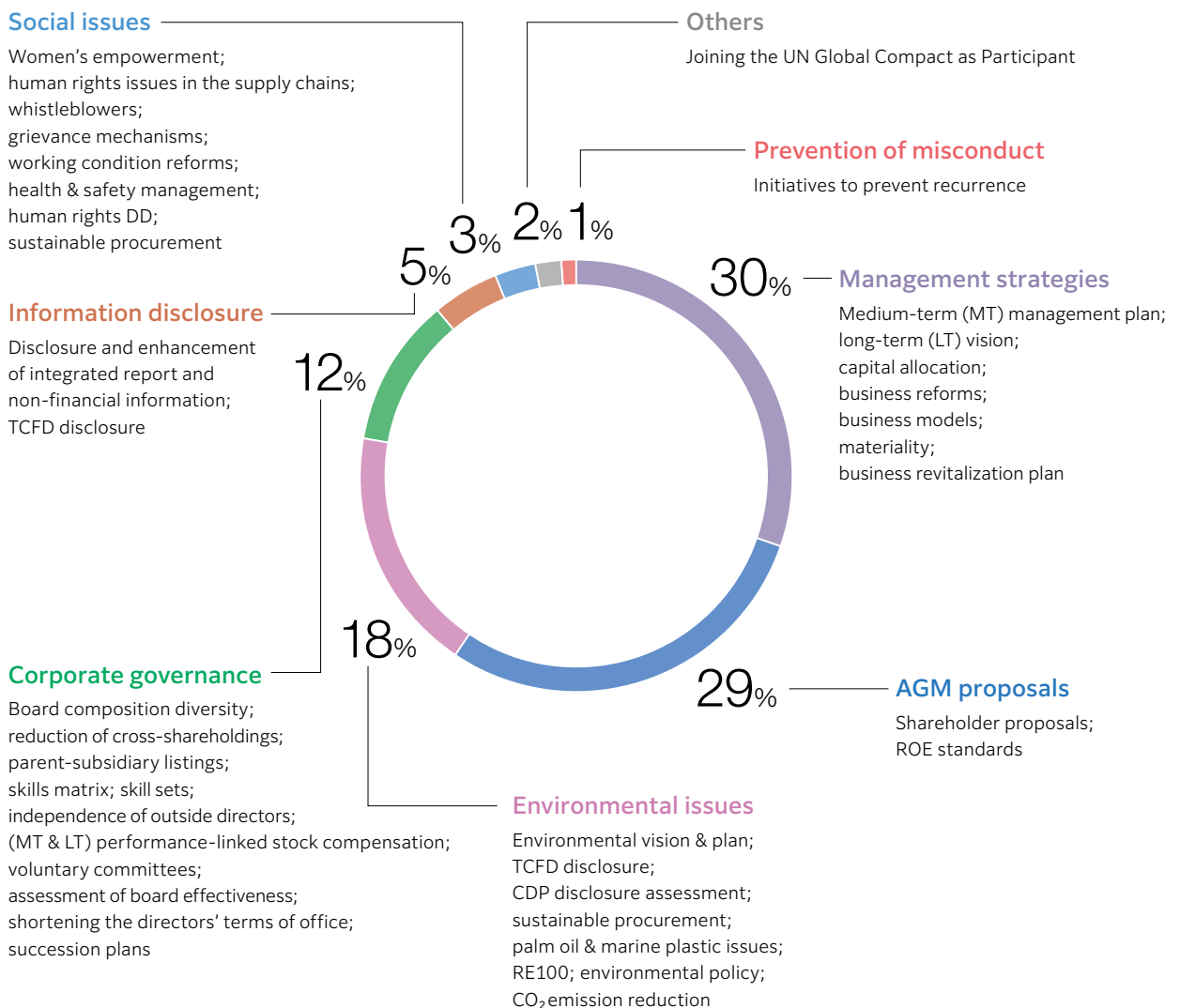


Equity/Passive investment – Dialogue

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 FY2020, dialogues on management strategy and environment increased as a result of coordination with the Equity Investment Division. Dialogues with the companies on shareholder proposals have increased as more proponents (groups of shareholder filing the proposals) have filed proposals at the AGMs. In many cases they were asking for better disclosures on management measures towards climate change. Meanwhile, we have also held dialogues with the proponents to discuss the background of filing the proposals.

Topics of dialogue



Equity/Passive investment – Engagement

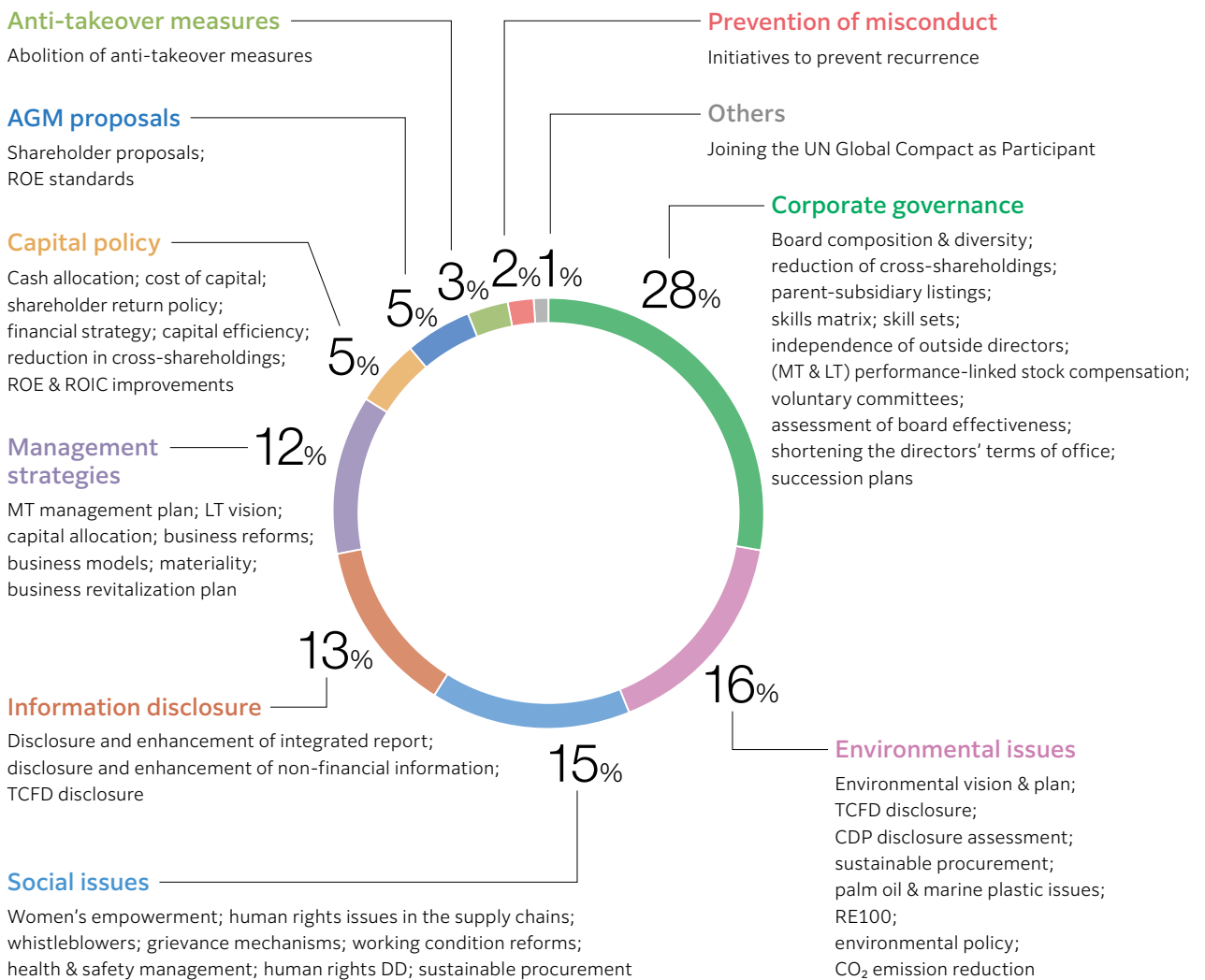
■ Corporate governance and ESG disclosure

The Responsible Investment Division conducts shareholder relations (SR) meetings with corporate directors and managers in charge of general affairs. During FY2020, engagement cases on the creation of skills matrix, which forms the basis of necessary skill sets in the board composition, have increased. Additionally, we have engaged on further diversity of gender and nationalities in the board composition, as well as reduction of cross-shareholdings. We have also engaged on further disclosure of non-financial information in the integrated reports.

■ Engagements focused on environmental and social issues

During FY2020, we have conducted engagements on sustainable procurement of materials that are subject to environmental, human-rights, and labor risks in the supply chains. In addition to palm oil, we have included pulp & paper, lumber, soy beans, and cacao beans in our scope. Engagements calling for further disclosure in accordance with the TCFD recommendations are increasing. Following the announcement of the “Action Plan on Business and Human Rights” in October 2020, we have conducted engagements on human rights due diligence and the establishment of grievance mechanisms in the supply chains.

Topics of engagement



Index investment – Engagement

The Index Investment Division actively exchanges opinions with index providers to ensure that indexes have the market representativeness and transparency required as a benchmark, and are highly reliable from the perspective of long-term investment. Furthermore, towards achieving a sustainable society, we invest in green bonds and social bonds as a way of funding SDGs projects, and strive to promote the popularization of sustainability bonds.

■ Index engagement

Index providers for each asset also conduct consultations to gather diverse opinions from market participants such as asset managers and also provide opportunities to exchange opinions in order to strengthen “index governance.” Resona Asset Management voluntarily participates in these opportunities and strives to make indexes even better through market representativeness and functionality.

Exchange of opinions with index providers

[Tokyo Stock Exchange] Benchmark for Japanese listed equities TOPIX	[FTSE] Benchmark for listed global fixed income (ex. Japan) WGBI	[MSCI] Benchmark for global listed equities (ex. Japan) MSCI-KOKUSAI
Consultations conducted <ul style="list-style-type: none"> • Revision of TOPIX, etc. • Revision of calculation procedures for the JPX-Nikkei Index 400, etc. 	Consultations conducted <ul style="list-style-type: none"> • Inclusion of Chinese government bonds in the WGBI 	Consultations conducted <ul style="list-style-type: none"> • Proposal to stagger the implementation of periodic index reviews
Resona Asset Management’s opinion <ul style="list-style-type: none"> • Expression of opinion recommending establishment of measures to reduce the market impact from revision of the methodology for the free float weight ratio of TOPIX and policy of excluding low-liquidity stocks 	Resona Asset Management’s opinion <ul style="list-style-type: none"> • Expression of opinion regarding inclusion of Chinese government bonds that the decision should be made carefully, understanding and giving adequate consideration to the status of the bond and foreign exchange markets, liquidity, and other issues 	Resona Asset Management’s opinion <ul style="list-style-type: none"> • Expression of opinion regarding merits and demerits of proposed split execution of periodic index reviews with regard to market impact, transaction cost, and turnover rate, etc.
Participation in committees <ul style="list-style-type: none"> • Tokyo Stock Exchange “Index Advisory Panel” 	Participation in committees <ul style="list-style-type: none"> • FTSE Asia Pacific Fixed Income Advisory Committee 	



Benchmarks with better market representativeness and functionality

Index investment – Engagement

■ Investment in sustainability bonds

As a responsible investing initiative of the Index Investment Division, we aim to realize a sustainable society by investing in green projects, social projects, and so forth. In the Index Investment Division, we invest in sustainability bonds such as green bonds considering investment efficiency on an economic front.

In addition, Resona Asset Management invests in sustainability bonds issued by the World Bank, the European Investment Bank, and other international institutions, and supports funding of projects for realizing a sustainable society.

Investment in green bonds and social bonds in compliance with guidelines

International Capital Market Association (ICMA)

▶ Green Bond Principles, Social Bond Principles

Ministry of the Environment

▶ Green Bond Guidelines

Financial Services Agency

▶ Social Bond Guidelines

Submission of opinions on public comments

The Financial Services Agency called for public comments with a view to formulating social bond guidelines. Resona Asset Management submitted opinions from a perspective of promoting the spread of social bonds, as well as bringing the guidelines into alignment with the ICMA standard (Social Bond Principles) and the Green Bond Guidelines formulated by the Ministry of the Environment.

Collaboration with Responsible Investment Division on monitoring green bonds and social bonds after investment

Monitoring

▶ Monitoring use of funds and business content, etc., through reports, etc., published by bond issuers

Meeting with international issuing institutions, etc.

▶ Direct confirmation of issuers' initiative policies and issues, etc. towards realizing a sustainable society

Conducting impact measurement

▶ Monetizing the changes (impacts) brought about by projects on society and assessing whether the intended effects have been achieved

Aiming to realize a sustainable society by promoting investment in green projects and social projects, etc.

Implementation of AI for information disclosure engagement

Engagement based on integrated reports

AI analysis of integrated reports

As a criteria of "management strategy formulation process to increase corporate value" in integrated reports, Resona Asset Management developed quantitative evaluation models for integrated reports using text mining technology (AI) and attributed quantitative scores to integrated reports of approximately 550 companies. For quantitative scores, total scores are calculated from four items of values, governance, business models and KPIs.

Quantitative assessment score of integrated reports (AI)

Item	Company A	Company B	Company C	Company D	Company E
Total score	71.67	70.64	68.57	68.43	68.38
Values	76.23	56.59	66.22	65.26	66.13
Purpose	80.76	52.56	64.71	63.49	63.51
Vision	70.28	67.58	67.06	64.06	71.15
Mission	65.09	53.91	64.05	64.41	63.24
Values	81.32	47.68	63.38	64.21	60.07
Governance	64.32	71.54	63.73	65.28	68.80
Governance framework	61.55	64.16	62.99	58.00	58.76
Skills matrix	60.63	65.30	68.70	59.52	72.38
Continuity of directors	64.13	60.84	60.45	63.72	72.31
Director compensation	65.01	64.58	58.20	66.94	73.14
Diversity	56.06	70.69	65.14	66.15	61.21
Sustainability committee	67.19	80.43	57.14	63.01	63.11
Business models	66.59	63.35	60.61	59.18	56.54
Analysis of business environment	62.78	60.76	56.62	56.86	56.04
Identification and evaluation of key risks and opportunities	55.92	61.59	60.80	59.92	56.65
Identification of social issues and management issues	65.97	62.29	55.67	56.75	56.70
Determining materiality	72.70	61.48	58.74	55.24	60.52
Corporate strategy and capital allocation	61.76	60.88	65.49	65.24	51.81
Building medium- to long-term plans	65.49	64.64	62.30	58.93	50.78
KPIs	70.15	76.71	73.15	73.39	72.32
Financial performance	68.76	76.35	71.73	72.07	71.75
Non-financial KPIs and acceptability	65.78	65.37	66.02	65.24	71.80
Cost of capital, ROE and ROIC	69.18	79.56	73.92	74.98	66.38

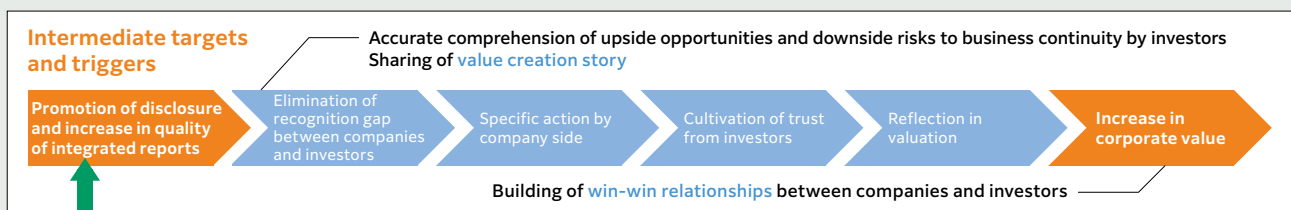
Engagement

We promote issuance of integrated reports among companies that have yet to issue them. For companies that are issuing them, we disclose our analyst engagement sheet featuring objective integrated report evaluation scores calculated by the AI quantitative model (along with qualitative judgment by analysts) to the companies and engage in dialogue to deepen the discussion of the companies' management strategies and eliminate the recognition gap between investors and investee companies regarding their value creation story.

Promotion of corporate disclosure

Promotion of non-financial information disclosure (integrated reports) and increase in corporate value through quality improvement are issues in the capital markets. Resona has established promotion of disclosure and quality improvement of integrated reports as intermediate targets and triggers. We will support improvement of corporate value by companies through fruitful engagement based on objective integrated disclosure assessment scores of integrated reports by AI analysis.

Path toward corporate value increase



Resona Asset Management's approach



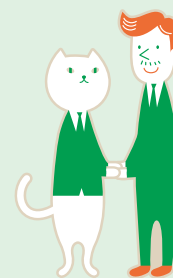
AI analysis of integrated reports

- In-house modeling (Quants Team, Index Investment Division)
- Set multiple assessment items for integrated reports and calculate AI score.
- Realize major reduction in work for analysis operations through use of AI technology. Accelerate issue analysis and engagement theme setting for each company based on objective assessment from a unified perspective.
- Submit the assessment result to the target company and encourage more active dialogue to improve integrated report quality and increase corporate value.

Engagement

- Team formation and integration of internal knowledge by the Responsible Investment Division (passive engagement function) and the Equity Investment Division (active engagement function)
- Engagement based on analysis of integrated reports (for non-disclosing companies, awareness) intended to contribute to increasing corporate value
- We identify the target company's materiality regarding environmental and social issues from an investor perspective. We then require the company to reflect this in its medium- to long-term growth strategies as business continuity risks and opportunities currently and in the future (e.g. business model construction, value creation, competitive advantage), and promote appropriate disclosure of these through integrated reports.

Responsible Investment in Active Management for Equity



As an asset manager whose purpose is to provide abundance and happiness to future generations as well as our own, Resona Asset Management is taking positive steps to broaden the scope of its Equity/Active Investment endeavors in order to respond effectively to the expectations of clients and the demands of society.

We recognize that the role that companies are being required to play is widening beyond enhancing their own corporate value to incorporate contributing through their business activities to the sustainability of the socioeconomic system, as exemplified by addressing the problem of climate change. We expect companies in which we invest to promote growth strategies that are in harmony with the sustainable development of society and to enhance their risk management, and we are strengthening our engagement with them from that perspective. We place particular emphasis on deepening discussions with them about how they can better explain their value creation story by clarifying their purpose and the material issues (materiality) in the integrated reports and other materials, and about how they can enhance risk management.

■ 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 problems • 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

Quants	Materiality in investment philosophy	Main paths to performance	Topics of dialogue and engagement
Quants value strategy	Corporate earnings sustainability	Integration	<ul style="list-style-type: none"> • Degree to which ESG is incorporated into the value creation process

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 2020 to the end of June 2021. 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)

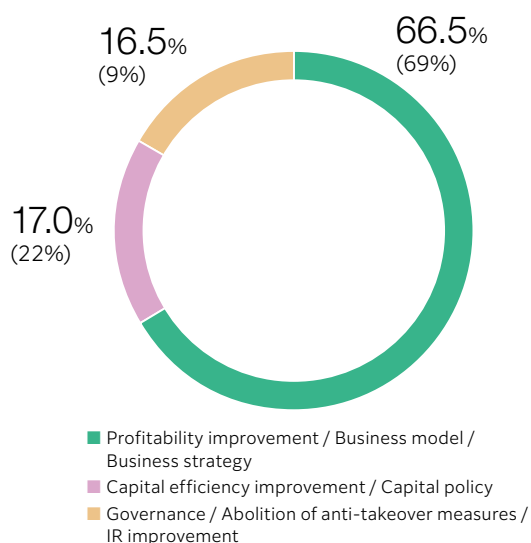
1,423

Equity/Active investment
[Fund managers and research analysts]

1,344 (609)

79 (30)

Topics of engagement (Previous year in parentheses)



Key points

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. Intensifying our engagement in relation to information disclosure

- Increasing dialogue on explaining corporate philosophy and the value creation story.
- Deepening discussions related to the publishing of integrated reports and enhancing their content.

3. Discussions on the importance of intentions

- Beginning impact investment.
- Strengthening dialogue on the social intentions of investee companies.

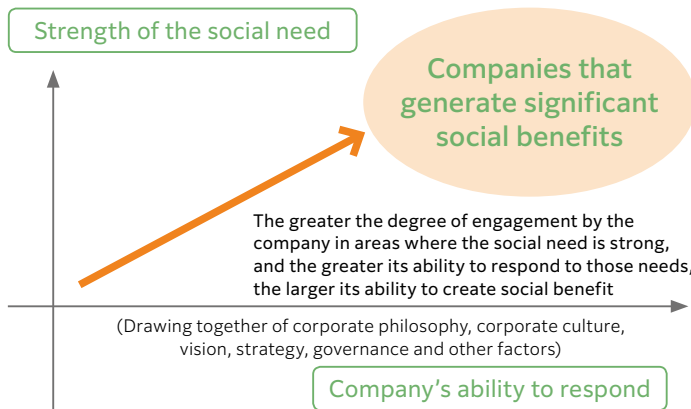
Equity/Active investment

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")

We conduct ESG evaluation along two axes to assess the long-term growth potential of companies and the sustainability of their earnings.

Size of social benefit = social need × company's ability to respond

Social benefit loop originating with customer



Dialogue example: Enhancement of disclosure focused on non-financial information

Dialogue with companies: Major logistics services provider Company A

Situation

Company A is a logistics services provider that has grown consistently over the years, with major customers in the retailing industry such as general merchandise stores and drugstores as well as the housing and building materials industry and chemical industry. In recent years it has acquired industry peers with strengths in the cold chain, and is accelerating the expansion of its food distribution business. In addition to cost-related pressure from customers in such areas as improving efficiency and converting costs from fixed to variable, the logistics industry is facing rapidly diversifying social needs, including dealing with structural labor shortages and work style reforms, moving to smaller lots and higher frequency, responding to the rise of e-commerce, and reducing environmental impacts. Company A's strengths include management techniques designed to encourage the use of ingenuity on the front line, as well as a full array of facilities and systems for education and training. Through its development of human resources it has succeeded in addressing the needs of society, and in achieving sustainable growth in sales.

Dialogue and engagement

In dialogue with Company A, we noted the fact that the stock price valuation has remained at low levels in the light of our analysis of its track record of growth and the sustainability of that growth into the future, and the main theme of our engagement has been to request fuller disclosure of information aimed at resolving this situation. Recently, we have been requesting that Company A recognizes the spirit of the times and the needs of consumers that provide the backdrop to long-term growth in demand. We have also asked that it discusses some of the unique initiatives it has taken to address these issues, so as to express the factors that support its sustainable growth in terms of non-financial information, which is the value it provides to society. At such times, our policy is to introduce material to offer pointers to the company as it considers specific measures for improvement, such as case studies from other companies in the same industry that are communicating effectively with stakeholders.

Company A's initiatives and our expectations

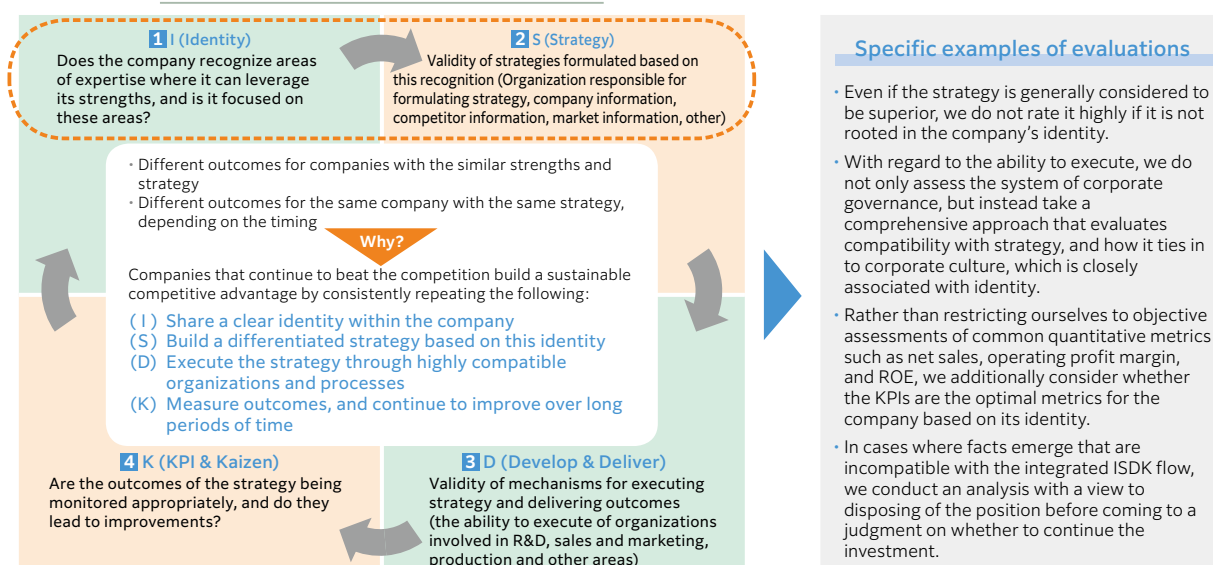
In the past Company A had gradually enhanced the information it discloses, with a focus on materials for the financial results briefing held every fiscal year. In addition, a department dedicated to investor relations was established in 2020, and more human resources were allocated. The company responded positively to dialogue pertaining to the disclosure of non-financial information, and after sharing our awareness of this problem with management, Company A is now moving forward with the consideration of specific proposals.

For our part, in the new medium-term management plan scheduled to begin next fiscal year, we hope to see signs of an accelerated development of specific measures that are in harmony with the spirit of the times. By balancing fuller information disclosure with a sophisticated growth strategy in this way, we believe the company can achieve sustainable expansion in corporate value and contribute to the performance of the research active team fund.

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

We support enhancements to corporate value by assessing and discussing sustainable improvements in competitiveness.
Vigorous discussions based on a thorough ISDK analysis (as shown in the diagram below) lead to sustainable improvements in competitiveness.

Strategy execution process analysis (ISDK)



Dialogue example: Discussing the importance of continuously strengthening the source of competitive advantage

Dialogue with companies: Major automobile manufacturer Company B

Situation

Company B has enjoyed considerable success as a world-leading manufacturer of automobiles, and is now facing new challenges as part of a major transformation of the kind that occurs only a century. The background to its success hitherto is arguably the way it has continuously implemented a set of improvement (kaizen) activities, known as "TPS," that have generated a variety of competitive advantages. However, there has been a sense that kaizen activities at manufacturing sites have in the past tended to lead those in other parts of the company.

Dialogue and engagement

We first conveyed to the company our view that this culture of improvement (kaizen) is a large part of its source of competitiveness. We also drew to their attention the example of a US company that had been profoundly impressed by Company B's kaizen approach. Based on this, the US company had introduced kaizen activities throughout the organization, improved its competitiveness, and succeeded in recording double-digit average rates of growth in profits for more than 20 years. Company B commented that it was proud that there was a company that had used its thinking to generate such excellent results. It also noted that even within Company B it was felt that the kaizen activities at the factory locations were outstanding, and that it motivated those working in administrative functions to try harder still. We then communicated our hope that kaizen activities would continue to be strengthened across the company, and that they would include administrative functions.

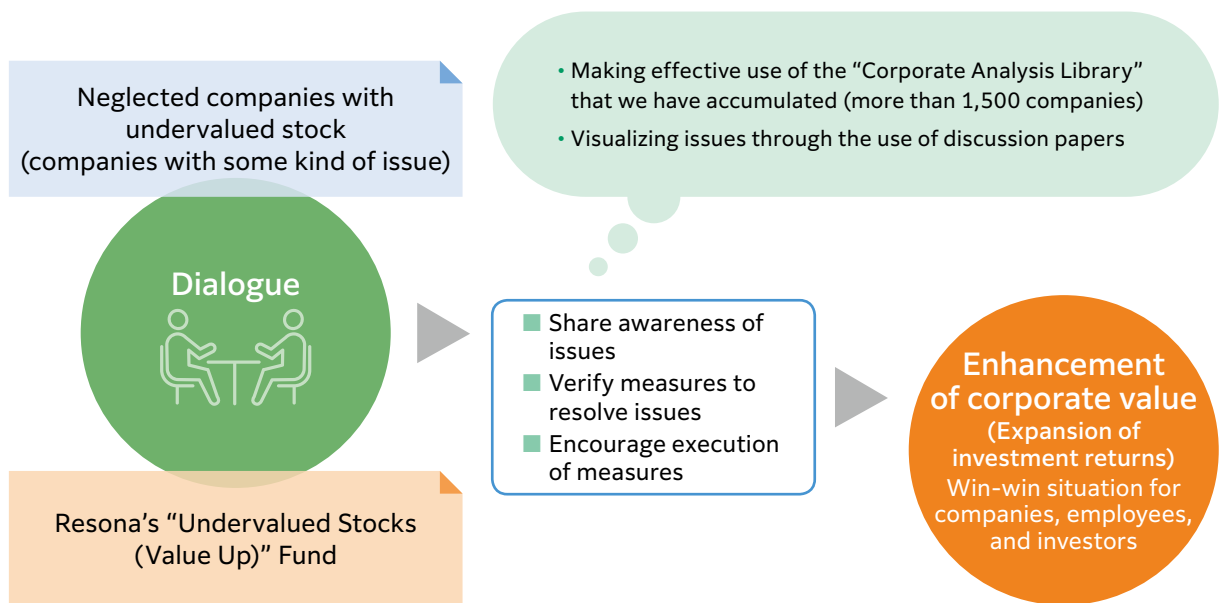
Company B's initiatives and our expectations

Company B subsequently began considering introducing TPS across the entire company, including administrative and technical functions, and strengthening kaizen activities. After various investigations and small-scale trials, this initiative was launched in the summer of 2020, and it appears that there have already been examples of work volumes being cut by 10%. Large-scale, eye-catching innovations are also important, but we expect the refinement and continuation of kaizen activities, which may appear at first glance to be sober and unexciting, to provide support for Company B's competitiveness over the long term.

Equity/Active investment

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

We develop understanding of the factors behind the stock price discount and clarify which points need improvement, including ESG perspectives. We visualize the issues, and engage constructively with the aim of improving and resolving management issues.



Dialogue example: Exchanges of views with a company whose corporate value is underappreciated

Dialogue with companies: Food company Company C

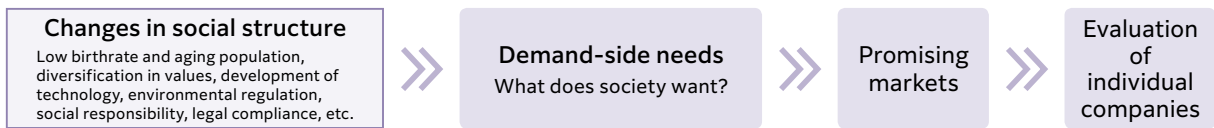
Situation
A food company with strengths in development, Company C is an organization that has achieved growth by developing globally competitive products. However, over the past few years increases in R&D investments and a rise in SG&A expenses have led to stagnation in earnings, and ROE remains at a low level.

Dialogue and engagement
We focused on the possibility that the latent corporate value of this company, with its differentiated business model, was not being properly valued by the stock market, and attributed this to the way up-front investment periods had lengthened, leading to stagnation in earnings, and the fact that there was also room for improvement in information disclosure, governance, capital policy, and other areas. We communicated these opinions to Company C, and have repeatedly exchanged views through a process of dialogue.

Company C’s initiatives and our expectations
Recognizing that Company C had a similarly high level of interest and awareness in this problem, we engaged with them to explore practical actions to resolve these issues.
In fact, we were able to verify specific developments such as raising the proportion of outside directors and buying back shares to improve capital efficiency. Going forward, we intend to continue dialogue with the aim of further enhancing corporate value, including strengthening strategies for sustainable growth, bolstering information disclosure, and other measures.

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

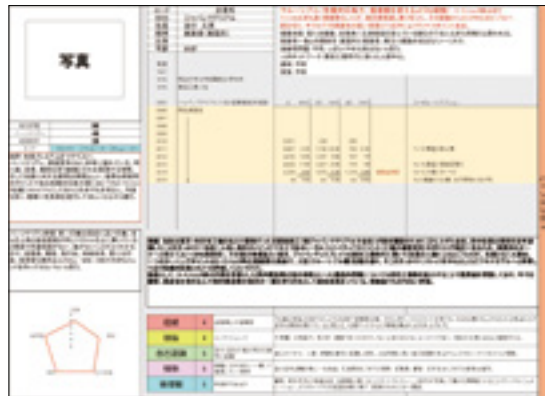
We generate investment ideas with an awareness of changes in social structure, including ESG. Corporate evaluations are seasoned with an assessment of the strength of management purpose. We discuss enhancements to information disclosure that lead to improvements in corporate value.



Map of promising markets based on changes in social structure



Analysis of management (focus on intentions)



Dialogue example: Dialogue aimed at converting temporary phenomena to structural and sustainable factors

Dialogue with companies: Life insurance company Company D

Situation
 Since it was founded as a pioneer of online life insurance, Company D has been establishing a position as one of the leading companies in the industry, providing products and services that are inexpensive, convenient, and easy to understand.
 This market, which had grown by capturing the highly computer-literate consumers who originally bought insurance via their personal computers, and who form the customer base of the company, has been slowing slightly. However, the COVID-19 pandemic that occurred in 2020 triggered an acceleration in the digital shift of finance, which centered on smartphones, and has now entered the structural growth phase. This led to the number of new policyholders hitting a record high for the company.

Dialogue and engagement
 The issue at hand was what would be required to make this positive consequence of the external environmental factor of the COVID-19 pandemic a structural and sustainable feature rather than a temporary phenomenon, we entered into dialogue with the current president of the company on the following three issues.
 1) Capturing the needs of the so-called smartphone generation who are expected to become policyholders going forward
 2) Committing funds to effective advertising to raise brand name and awareness
 3) Providing careful explanations to shareholders of the phenomenon by which, under existing accounting legislation, rapid growth in new policyholders results (superficially) in increased losses

Company D's initiatives and our expectations
 Partly due to distinctive television commercials, awareness of the company's products has already risen. Going forward we will support the expansion of the white label business using technology as a weapon (such as the recently announced alliance with Money Forward, Inc.) rather than being devoted entirely to advertising, as well as the company's strategy for significant and rapid growth, which is being implemented with an eye on transforming itself into an online platform operator.

Quants

Strategy	Materiality in investment philosophy	Focus fields
Quants value strategy	Corporate earnings sustainability	Degree to which ESG is incorporated into the value creation process

In order to practice ESG effectively, it must be incorporated into the company's value creation story by including ESG in the business strategy formulation process.

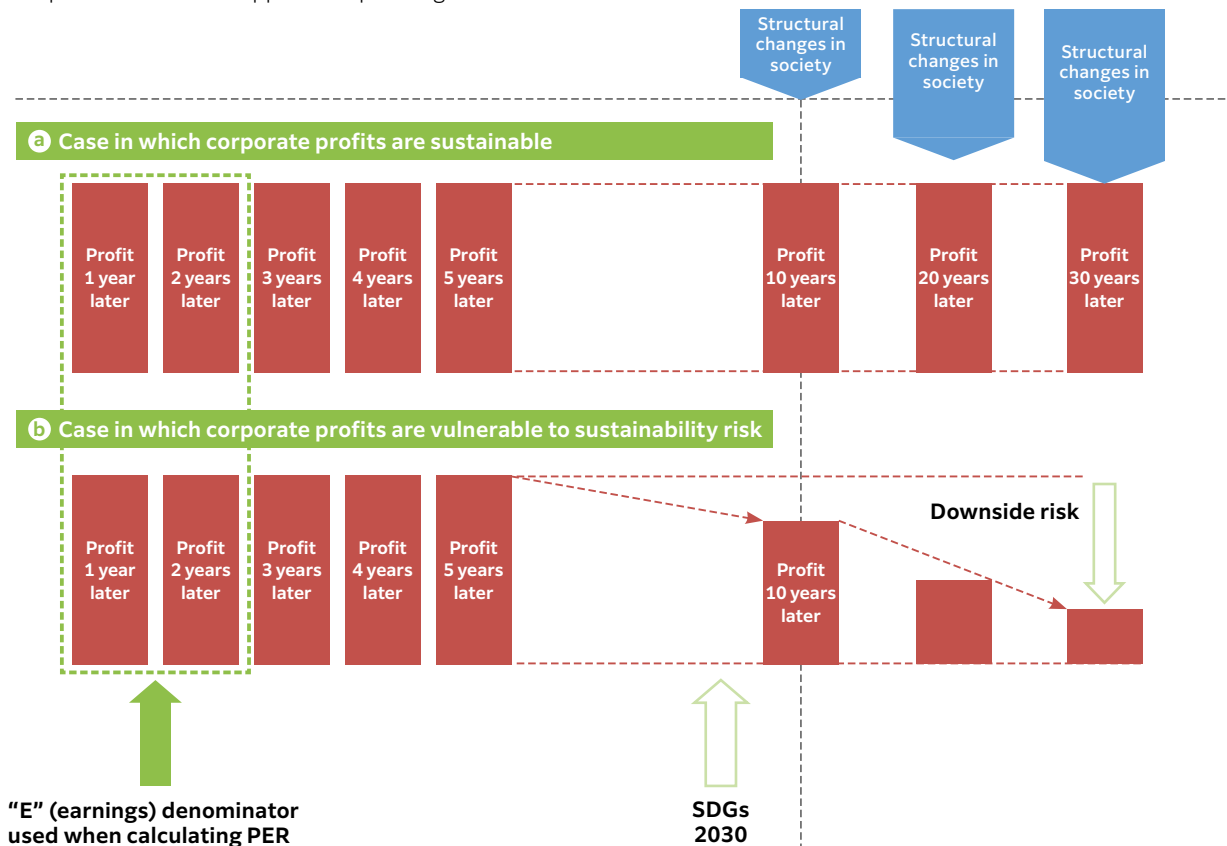
In quantitative investment, we have implemented ESG integration in accordance with Resona Asset Management's "Basic policy on responsible investment." Here we will highlight one example of the investment philosophy of ESG analysis and how it is incorporated into the process.

Because sustainability (ESG) means the sustainability of future corporate profits, it is important to take ESG into account when thinking about investment philosophy. Price-earnings ratio (PER) is an example of an indicator of undervalued stocks that expresses the attractiveness of the stock. Two different stocks for which the most recent corporate profits are the same, and that have the same market capitalization, will have the same PER. However, if their sustainability is different, the downside risk to future profits will also be different. For that reason, the stock with the higher level of sustainability is the more attractive. Accordingly, it is important that ESG is taken into account when calculating the attractiveness of a stock.

Meanwhile, in order to practice ESG effectively, it is important that it is incorporated into the company's value creation story by including ESG in the business strategy formulation process. To achieve this, we use text mining of integrated reports to analyze the degree to which ESG is incorporated into the value creation process, and thus to calculate sustainability factors. When performing these calculations, we utilize concepts such as the SDGs and ESG issues based on Resona's Materiality Matrices (the details of engagement for quantitative investment are the same as for those of the passive investment).

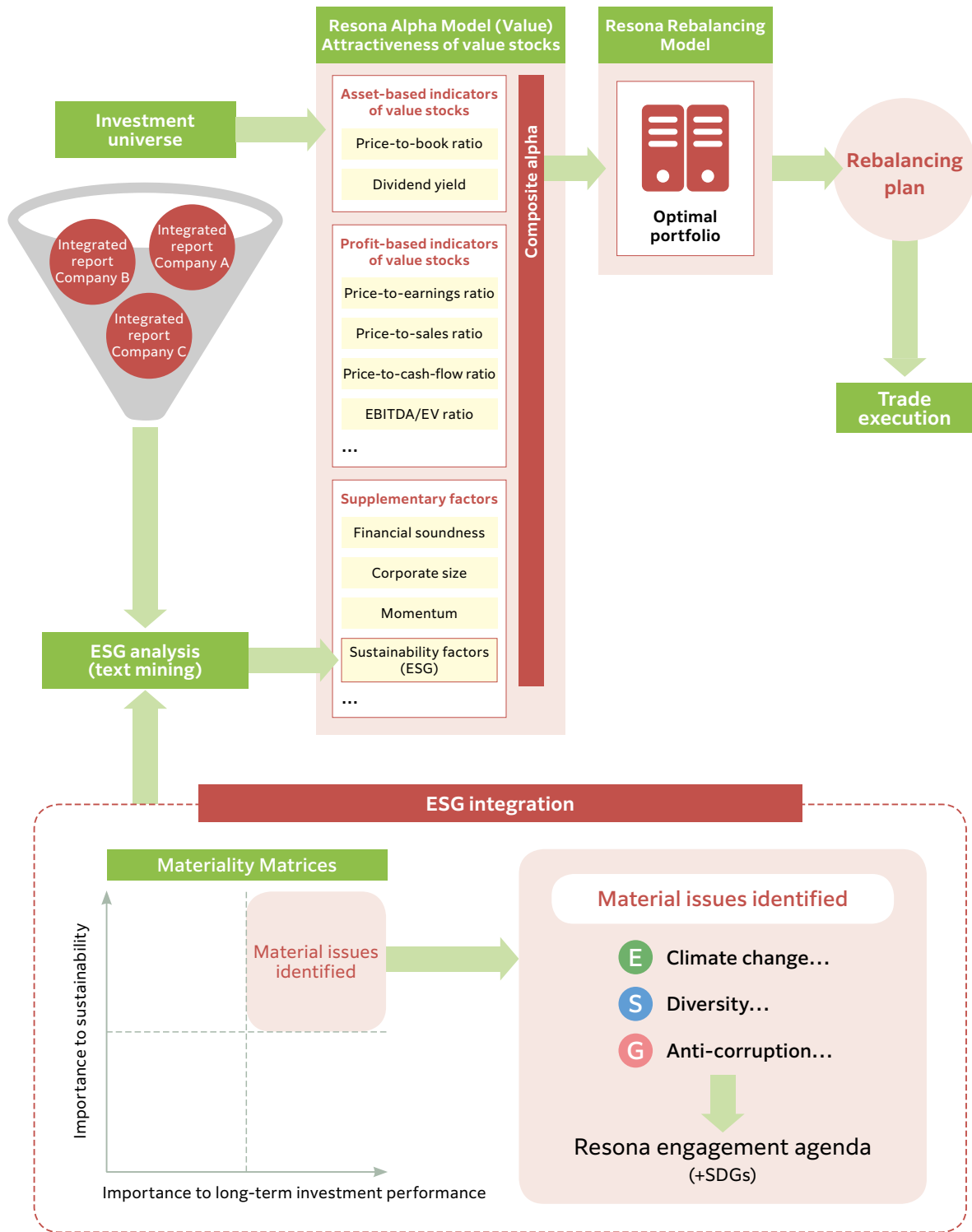
Example of the investment philosophy and process utilizing ESG analysis

If the market capitalization is the same, the PER based on the most recent earnings will be at the same level, but corporate value in the upper example is higher.



Example of ESG analysis being incorporated into the investment process

Incorporated into the investment process by performing text mining on integrated reports in order to calculate sustainability factors.



ESG Integration and Engagement on Fixed Income/Active Investment



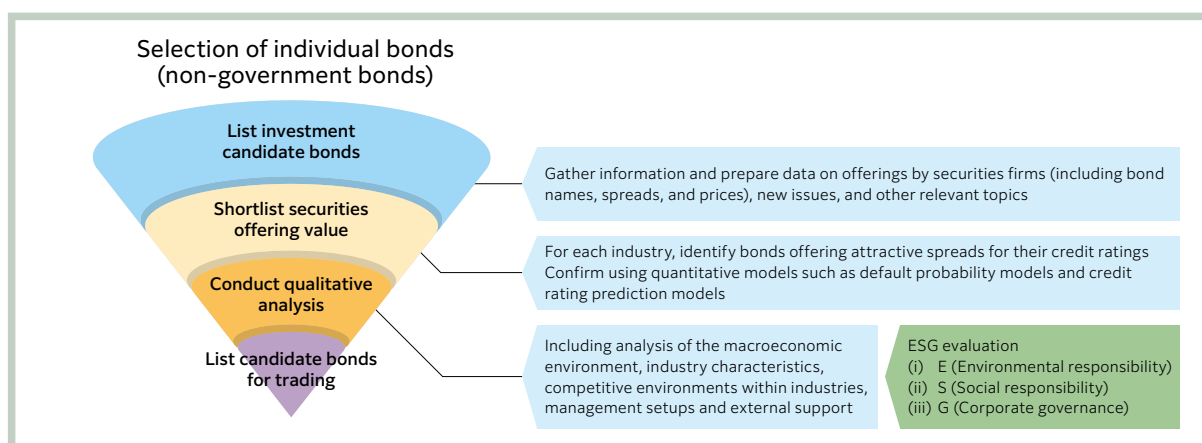
In our active investment for Japanese fixed income, we integrate ESG issues into our investment process in order to gain secure satisfactory investment income stably over the medium to long term in accordance with our basic policy on responsible investment.

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 avoid 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 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.

It is important for bond investors that a stable cash flow is generated for the period up to redemption, for which reason it is essential that good relationships are maintained between the issuer and various stakeholders. For example, electric power companies account for a significant portion of the value of Japanese corporate bonds issued, and as providers of important infrastructure they maintain economical and stable supplies of electricity. At the same time, these companies must take a balanced approach to changing their energy mix in preparation for the shift to a carbon-neutral society, and we believe that the use of dialogue with stakeholders to enable society to understand the vision of these companies is important for the generation of stable cash flow. Taking this viewpoint, we have consistently argued that when procuring funds using corporate bonds, the issuers must disclose sufficient information and enter into sufficient dialogue with corporate bond investors.

[Total number of dialogues and engagements conducted]

July 2020 to June 2021

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

78

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

45 (38)

33 (22)

Fixed income/Active investment – Examples of dialogue and engagement

[Governance, information disclosure] Company A (electric power company)

To Company A, we proposed that it fulfill its responsibility for providing explanations after misconduct has occurred more effectively, and conducted further engagement in relation to the issuing of labeled bonds.

Company A

It has improved communication with the capital markets, such as by providing prompt explanations of the situation to market participants as the issuer of the bonds when the Consumer Affairs Agency imposed administrative sanctions on an electricity retailing subsidiary for misconduct at a sales agent, and on other occasions.

Renewable energy subsidiary issued a green bond after repeated discussions with ourselves on the subject of sustainability bonds.

Resona

In relation to a string of incidents of misconduct regarding nuclear power plants and other issues, we proposed that the company should promptly provide explanations to the capital markets, giving details of the events that occurred and how it intends to address them going forward.

In terms of social engagement, we continue to hold discussions about the possibility of the company considering other sustainability bonds, such as social bonds or transition bonds.

[Decarbonization] Company B (insurance company)

To Company B, we conducted engagement in relation to its environmental agenda, and particularly its initiatives in relation to coal-fired power generation.

Company B

The company responded that in any case it intends to disclose its policy in relation to withdrawing the provision of insurance for new coal-fired power projects, and other measures in response to climate change.

In September 2020, it prohibited in principle the provision of insurance, investment, and financing for coal-fired power generation, and in June 2021 it formally announced the prohibition of all insurance for new coal-fired power generation facilities.

Resona

With regard to its ESG policy, we pointed out that, among other problems, there were few mentions of environment issues, and that its approach to initiatives in relation to coal-fired power generation was unclear.

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 set up Global Governance Principles encompassing Japanese and global equities in conducting proxy voting 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 management decisions by the executive managers.
- The board should be sufficiently independent from management (and significant shareholders) to ensure that it is able and motivated to effectively supervise management's performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy.

■ 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.

■ Information disclosure (financial & non-financial), and ensuring reliability

- The board ensures reliability of financial and non-financial information disclosed by the company, and accordingly assumes oversight 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 so that shareholders are able to effectively conduct engagement on issues which may affect their interest.

■ 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. In addition, proxy voting details for Japanese equities are posted on our website every quarter. Each proposal for all the investee companies is disclosed in the voting details, including the reasons for each voting result.

Approach to proxy voting ► <https://www.resona-am.co.jp/english/responsible-investment/voting.html>

Revised proxy voting guidelines (revisions applicable for the annual general meetings (AGMs) held from January 2021 onward)

Japanese equities	Board composition	<p>We will vote against if:</p> <p>The company does not appoint independent outside directors to one-third 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:</p> <p>The company does not appoint <u>two or more outside directors, comprising at least 25% of the board.</u></p> <p>We will vote against a company that has a parent company or controlling shareholder if:</p> <p>Independent outside directors <u>do not comprise a majority of the board members.</u></p>
	Independence criteria for outside directors and corporate auditors	<p>Where outside directors or corporate auditors correspond to any of the following, they shall be deemed to have no independence.</p> <ul style="list-style-type: none"> (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 or the corporate auditor is an outside director or corporate auditor as independent officer (ii) When they are associated with a major shareholder of said company that holds more than 10% of the shares (or has had <u>an association within the past 5 years</u>) (iii) <u>When their term of service at said company is 12 years or longer</u>
	Director compensation (retirement bonuses)	<p>We will vote against if:</p> <p><u>The individual payments or the total payments are not disclosed.</u></p>
	Revisions applicable for the AGMs held after January 2022 onward	
	Board composition	<p>We will vote against appointments of representative directors if:</p> <p>The board independence is <u>lower than one-third</u> without reasonable and compelling explanations.</p>
	Director compensation (retirement bonuses)	<p><u>We will basically vote against retirement bonuses.</u></p>
	Anti-takeover measures	<p><u>In principle, we will vote against the introduction / continuation of prior warning-based anti-takeover measures.</u></p> <p>However, we may vote in favor of such anti-takeover measures as long as:</p> <ul style="list-style-type: none"> • The company has a majority of independent outside directors, and • The company has provided a reasonable and compelling explanation <p>We will decide on the "emergency anti-takeover measures" on a case-by-case basis by:</p> <p>Comparing and considering management strategies of takeover bidder and management from an enhancement of corporate value perspective.</p>
	Shareholder proposals	<p>We will thoroughly consider whether:</p> <p>The proposal would contribute to enhancing shareholder value over the medium to long term, or</p> <p>It would better protect the shareholder rights. <u>Amendments to the articles of incorporation:</u></p> <p><u>We may vote in favor of amendments and inclusion of items after consideration of:</u></p> <ul style="list-style-type: none"> • <u>Information disclosure on climate change risk</u> • <u>Reduction of cross-shareholdings</u> • <u>Abolition of anti-takeover measures</u> • <u>Director compensation that we consider particularly necessary</u>
	Other matters	<p><u>We will consider voting against director appointments if:</u></p> <p><u>We were not able to confirm any intention nor improvements on the agreed ESG issues after several continuous engagements.</u></p>

Expected upcoming amendment (To be applied from 2023 AGMs)

Cross-shareholding	<ul style="list-style-type: none"> • We will vote against appointments of representative directors of the companies with: <ul style="list-style-type: none"> No policies and achievements on cross-shareholdings reduction, without compelling explanations, and <u>20% or more cross-shareholdings against its consolidated net assets, and low capital efficiency (ROE lower than 8%).</u> As for the cross-shareholding ratios, we will refer to the consolidated net assets from the 2022 Annual Securities Report ("Yuho"). (We will also refer to relevant cross-shareholding information on the most recent AGM supplemental documents, if applicable/disclosed.)
Appointment of female directors	<ul style="list-style-type: none"> • We will vote against appointments of representative directors if: <ul style="list-style-type: none"> <u>We are unable to confirm the presence of any female directors, corporate auditors, or executive officers (in the case of companies with three committees),</u> without reasonable and compelling explanations on gender diversity policies. But we will not vote against relative proposals, if we are able to confirm the presence of female directorship from the 2022 Yuho. We will be confirming the presence of female directorship, by using the AGM supplemental documents and the 2022 Yuho. • This proxy voting guidelines will be applied from 2023 AGMs to <u>the listed companies on the Prime Market.</u> We will consider extending this guidelines to more companies after 2024.

Proxy voting results for Japanese equities (from July 2020 to June 2021)

The following provides details on Resona's proxy voting results for Japanese equities during the period from July 2020 to June 2021. 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 against
	11.7%	(9.8%)	22,259	2,597
Shareholder proposals	Support ratio	(Previous year)	Total number of proposals	Voted for
	5.7%	(11.4%)	193	11

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	11.7% (9.1%)	17,269	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	14.8% (13.4%)	1,704	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%)	72	
Director compensation	Opposition ratio (Previous year)	Total number of proposals	
Director compensation (*1)	13.5% (11.5%)	960	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	80.6% (47.4%)	124	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.
Capital policy	Opposition ratio (Previous year)	Total number of proposals	
Appropriation of surplus	2.0% (5.9%)	1,423	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%)	54	
Introduction, renewal or abolition of anti-takeover measures	100.0% (93.5%)	56	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)	2.3% (0.0%)	87	
Articles of incorporation	Opposition ratio (Previous year)	Total number of proposals	
Articles of incorporation	2.0% (2.0%)	507	
Other proposals	Opposition ratio (Previous year)	Total number of proposals	
Other proposals	33.3% (42.9%)	3	

*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 2020 to June 2021)

The following provides details on Resona's proxy voting results for global equities during the period from July 2020 to June 2021.

Management proposals	Opposition ratio	(Previous year)	Total number of proposals	Voted against
	10.0%	(8.8%)	37,217	3,707
Shareholder proposals	Support ratio	(Previous year)		Voted for
	85.0%	(83.8%)	1,781	1,514

Of the total number of proposals:

Proposals related to written consent and proxy access accounted for 40%;

Disclosure on political contributions and lobbying activities accounted for 20%;

and Appointment of an independent chairman accounted for 10%.

• Proposals on climate change disclosure rose to 23. (Resona Asset Management's support ratio: 87%) (Previous year: 11, with support ratio at 72.7%)

• 33 proposals requesting for independent chairman (support ratio: 64%).

Corporate bodies	Opposition ratio (Previous year)	Total number of proposals	
Appointment and dismissal of directors	6.7% (5.9%)	13,384	The increase in opposition ratio was caused by a higher opposition ratios in India and the United States. In India many companies did not meet the independence requirement on board compositions.
Appointment and dismissal of corporate auditors	4.0% (0.6%)	479	
Appointment and dismissal of accounting auditors	1.0% (0.9%)	2,027	
Director compensation	Opposition ratio (Previous year)	Total number of proposals	
Director compensation (*1)	26.4% (23.0%)	3,965	We were not able to support many of the management proposals on/for US companies, because of: • The inconsistency on CEO compensations with earnings performance and shareholder returns. • Lack of disclosure on remuneration policy amendments.
Payments of retirement bonuses for retiring officers	0.0% (0.0%)	1	
Capital policy	Opposition ratio (Previous year)	Total number of proposals	
Appropriation of surplus	0.7% (1.3%)	1,377	
Restructuring (*2)	18.4% (18.7%)	2,979	
Introduction, renewal or abolition of anti-takeover measures	14.4% (3.9%)	90	
Other proposals related to capital policy (*3)	10.2% (11.2%)	5,987	
Articles of incorporation	Opposition ratio (Previous year)	Total number of proposals	
Articles of incorporation	7.2% (4.6%)	908	
Other proposals	Opposition ratio (Previous year)	Total number of proposals	
Other proposals	7.8% (7.3%)	6,020	

*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

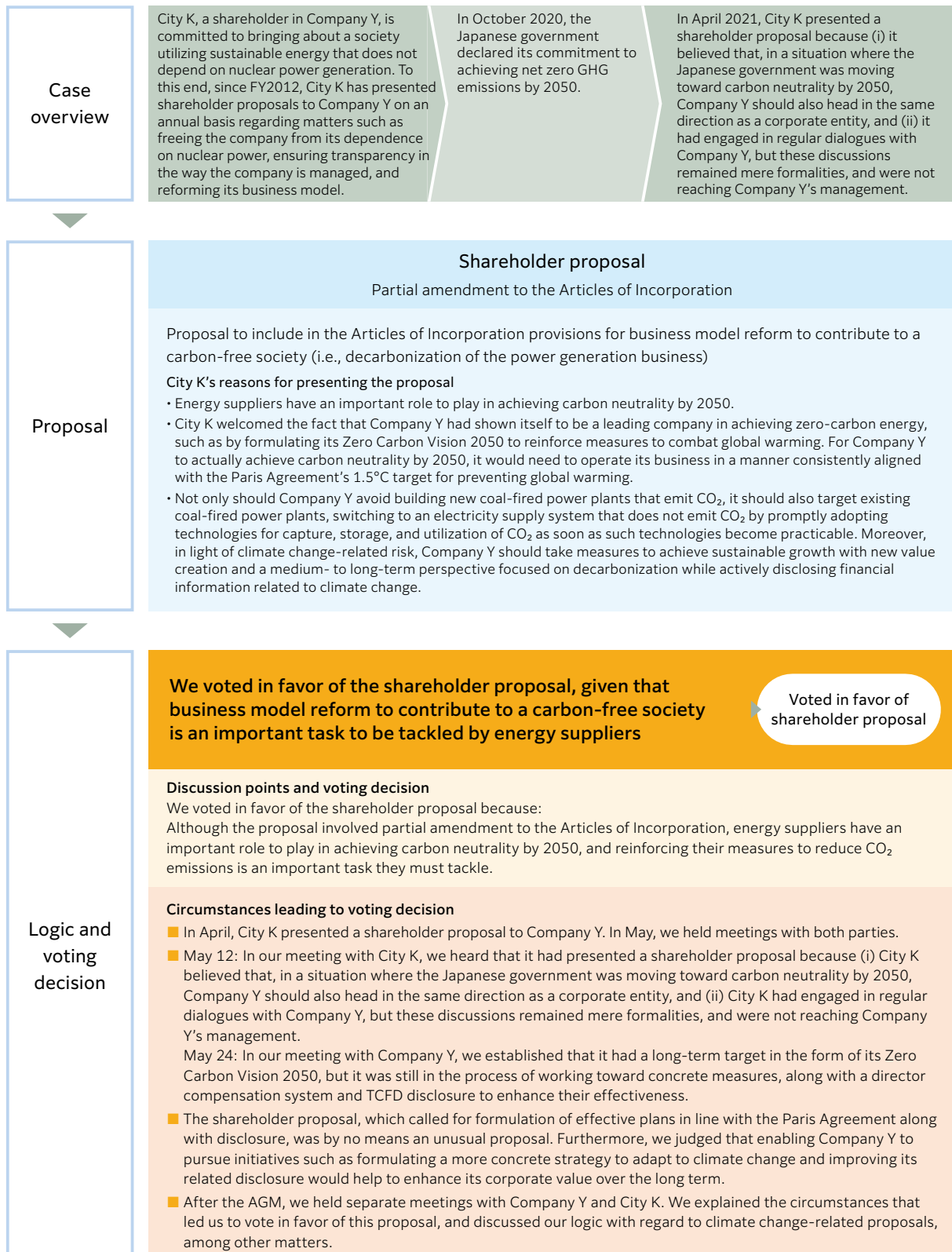
Resona Asset Management conducts proxy voting in accordance with its Global Governance Principles and proxy voting guidelines; here we present two proxy voting cases where qualitative judgments were to be made.

Voting guidelines	Governance frameworks	Enhancement of shareholder value	Protection of shareholder rights
	<p>We thoroughly consider whether shareholder proposals would contribute to enhancing shareholder value. In the voting process, we refer to our proxy voting guidelines to consider whether the respective companies meet our standards in terms of their governance frameworks and financial conditions. As shareholder proposals include diverse matters such as environmental and social issues, we thoroughly consider whether the proposal would contribute to enhancing shareholder value over the medium to long term, and whether it would better protect the shareholder rights.</p>		

Case 1: Company X

Case overview	<p>Company X's largest shareholder, Company A, viewed cyclical transactions and fictitious transactions involved by Company X's subsidiary as problematic, and presented a shareholder proposal at the AGM putting forward a candidate for the position of outside director.</p>	<p>As Company X was suspected of pressuring major shareholders to not exercise their voting rights, and voting ballots were counted incorrectly, among other irregularities, Company A demanded an investigation by a third-party committee. However, Company X refused, so Company A requested that an extraordinary general meeting of shareholders be held.</p>	<p>The extraordinary general meeting of shareholders approved a third-party investigation. The investigation report indicated reason to suspect that a former executive adviser to the Ministry of Economy, Trade and Industry had put pressure on Company X's shareholders to not exercise their voting rights.</p>	<p>Following the report, Company X concluded that the previous year's AGM "could not be described as having been conducted fairly." Ahead of the AGM, it announced the retirement of two directors and amended its proposal for election from 13 directors to 11.</p>
Proposal	<p>Management proposal Election of 11 directors</p> <p>Election took place for a total of 11 candidates; of these, seven were directors who were members of the board that had supervisory responsibility for the series of problems, as well as being audit committee members and nomination committee members, and four were new candidates for election as directors.</p>			
Logic and voting decision	<p>Designated Company X as a company that had engaged in anti-social behavior We held all directors in office at receipt of the internal report accountable, and voted against their reappointment.</p> <p>Management proposal Voted against reappointment</p> <ul style="list-style-type: none"> ■ We judged that the board of directors had exercised insufficient supervision because: With regard to the so-called pressurization issue (news reports alleging that Company X had pressured its major shareholders to not exercise their voting rights), Company X itself effectively acknowledged that it had been involved. ■ We designated Company X as a company that had engaged in anti-social behavior, judging that its behavior was problematic in terms of the social responsibility-related aspects of the criteria for determining such companies. Considerations that informed our decision included the facts that (i) the infringement of certain shareholders' rights (through pressure) constituted inappropriate behavior, (ii) Company X was extremely influential within society and the matter had attracted considerable attention among the public, and (iii) the board of directors could be expected to have known about this matter, and Company X's behavior could therefore be described as systematic. ■ We voted against reappointment of the directors responsible (all candidates for reappointment), holding them accountable for the anti-social behavior. 			

► Case 2: Company Y



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.
- In 2021, PRI launched a pilot Reporting Framework and new Reporting Tool. Following the launch of the new reporting framework, PRI is planning to release the 2021 public Transparency Reports and private Assessment Reports by June 2022, alongside an updated assessment methodology and new features in the Data Portal.

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 for 2020/2021 is determined as from July 2020 to June 2021.

Self-assessment was proposed at the September 2021 Responsible Investment Committee meeting. The countermeasures conducted in response to the previous 2019/2020 assessment were reported, together with the new 2020/2021 assessment results. The new countermeasures for the 2020/2021 assessment were discussed.

Results of self-assessment

(i) Our stewardship activities

- For the 2020 PRI Reporting assessment, we were able to achieve/maintain high scores (A+). This was due to the implementation of our stewardship activities under the clear policies. (PRI is currently working to release the final "2021 Transparency Report," i.e., the assessment scores to be disclosed in June 2022.)
- A new "purpose" has been drawn up by Resona Asset Management. We have managed to specify our material engagement issues by establishing the Materiality Matrices. In addition, in November 2020 we endorsed and supported to commit to the TCFD recommendations, and have commenced TCFD disclosure. We have conducted impact assessments on ESG bonds, and simultaneously released our basic intention on impact management.
- The Responsible Investment Division will collaborate with the investment function (Equity and Fixed Income Investment Divisions), by jointly conducting engagements and sharing various information and engagement issues, to improve ESG integration capability. In FY2020 we established a local impact fund as part of this collaboration. We are also deepening the relationships between the different investment divisions in order to implement engagement effectively.

(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. On the other hand, some committee members voiced their opinion that issues still remain regarding the internal acknowledgement of our stewardship activities and commitment to the stewardship activities as one organization. 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.
 - Establish "company's purpose," which leads to consistent "investment philosophy"
 - Improve disclosure on outcomes of ESG integration and engagement
 - Improve public disclosure even further to become one of the leading asset management company

For policies regarding Japan's Stewardship Codes, please refer to the following.
<https://www.resona-am.co.jp/english/responsible-investment/activity.html>



Resona Asset Management

