

Initiatives by Life Insurers to Reinvigorate the Equity Market and Achieve a Sustainable Society through Asset Management

April 2019

The Life Insurance Association of Japan

1. Social role of asset management by life insurers

2. LIAJ initiatives to date (stewardship activities)

- Recommendations for equity market reinvigoration

3. LIAJ initiatives in FY2018 (stewardship activities, ESG investment)

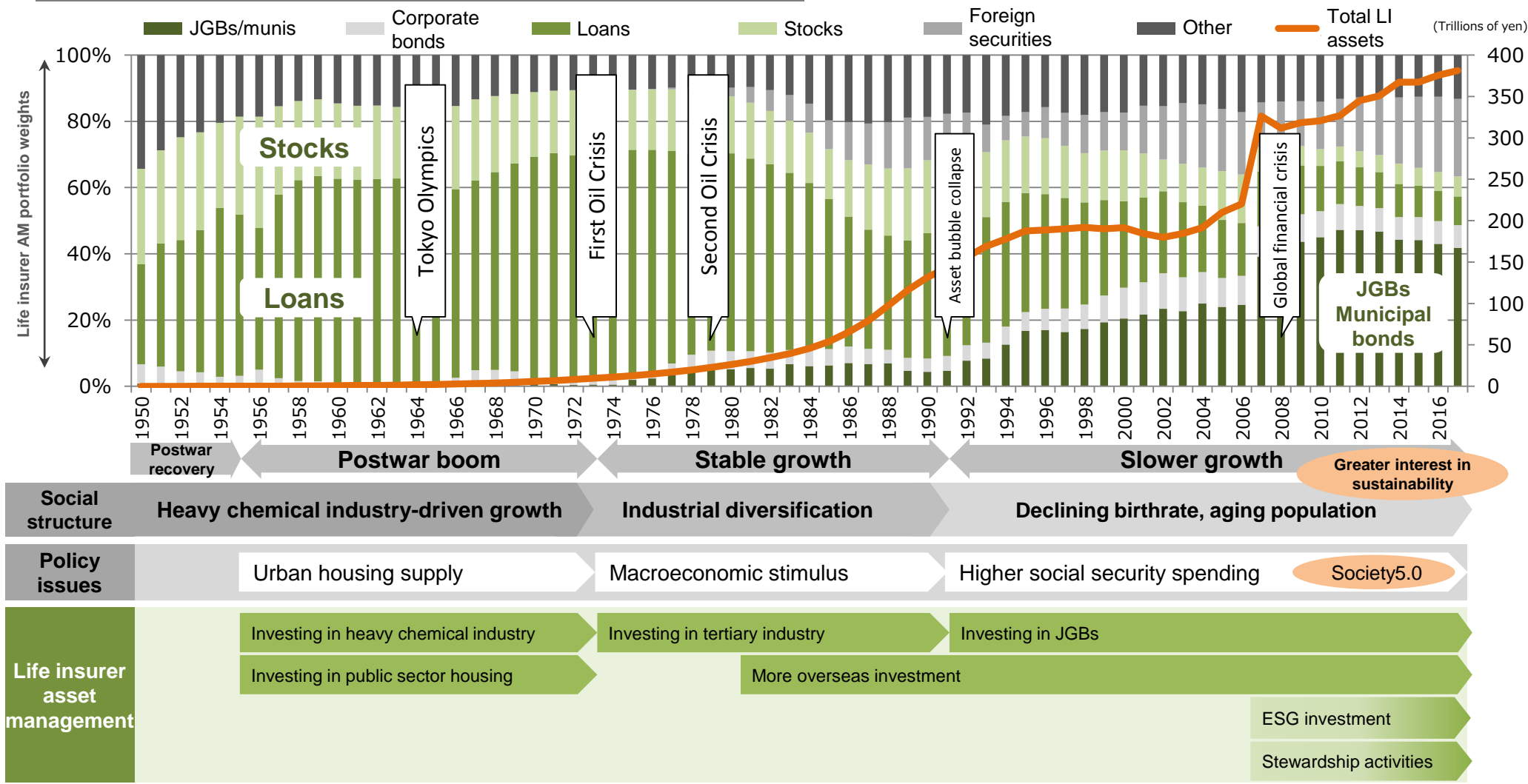
- (1) Upgraded activities by life insurers
- (2) Implementation of collective engagement
- (3) Formulation of ESG investment guidelines
- (4) Recommendations for companies, investors and government

1. Social role of asset management by life insurers

- Through providing long-term finance, life insurers have supported major structural and social changes to aid Japan's economic growth.
- Their role in achieving a sustainable society has been broadening recently through ESG investment and stewardship activities.

Change in social role of asset management (AM) by life insurers

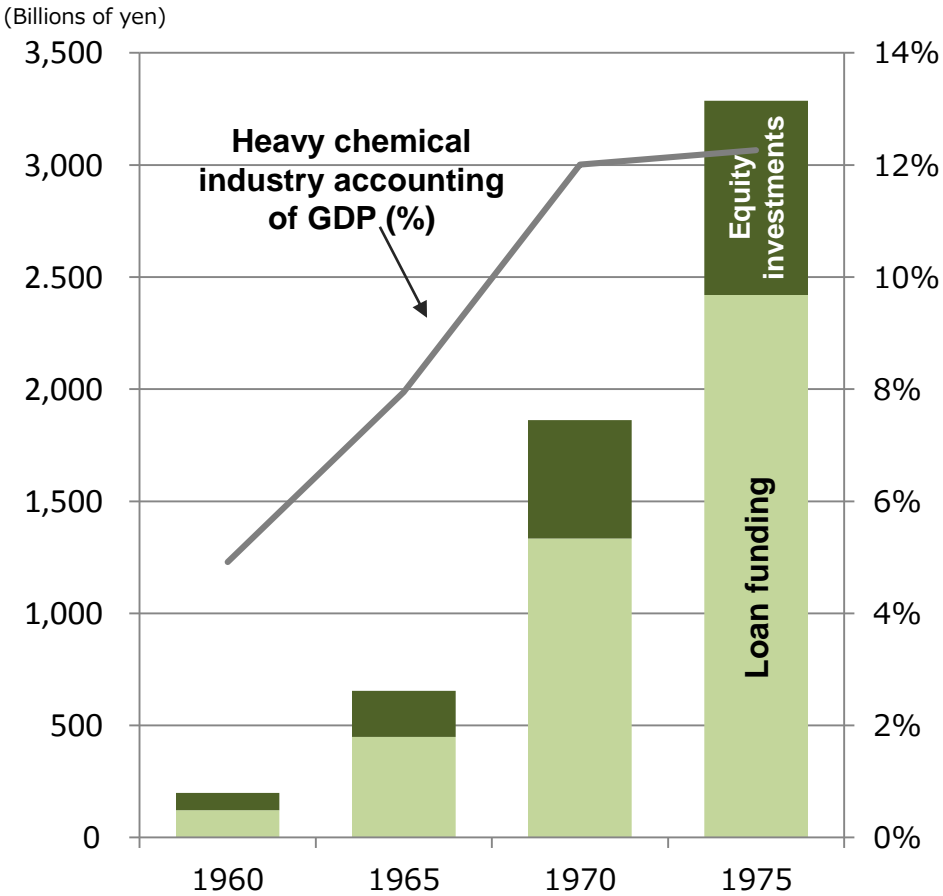
Source: LIAJ publications Note: Figures from 2007 include Japan Post Insurance



Helping heavy industry-led economic growth during boom via loans and equity investments

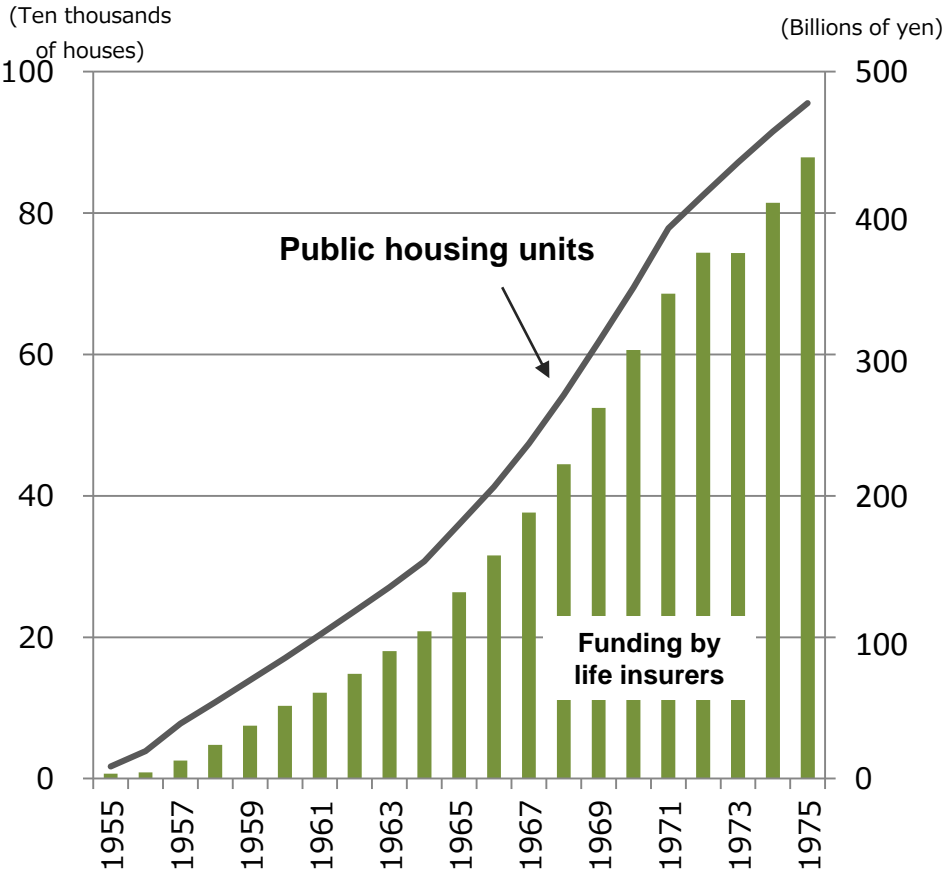
- Long-term loans and equity investments in heavy chemicals and other critical industrial sectors helped drive Japan’s rapid economic growth from the 1950s to the early 1970s.
- Life insurers also helped fund construction of public housing stock amid rapid influxes of population into urban centers.

Growth in funding to heavy chemical industry



Source: Cabinet Office, ESRI (SNA)

Growth in funding to public housing sector



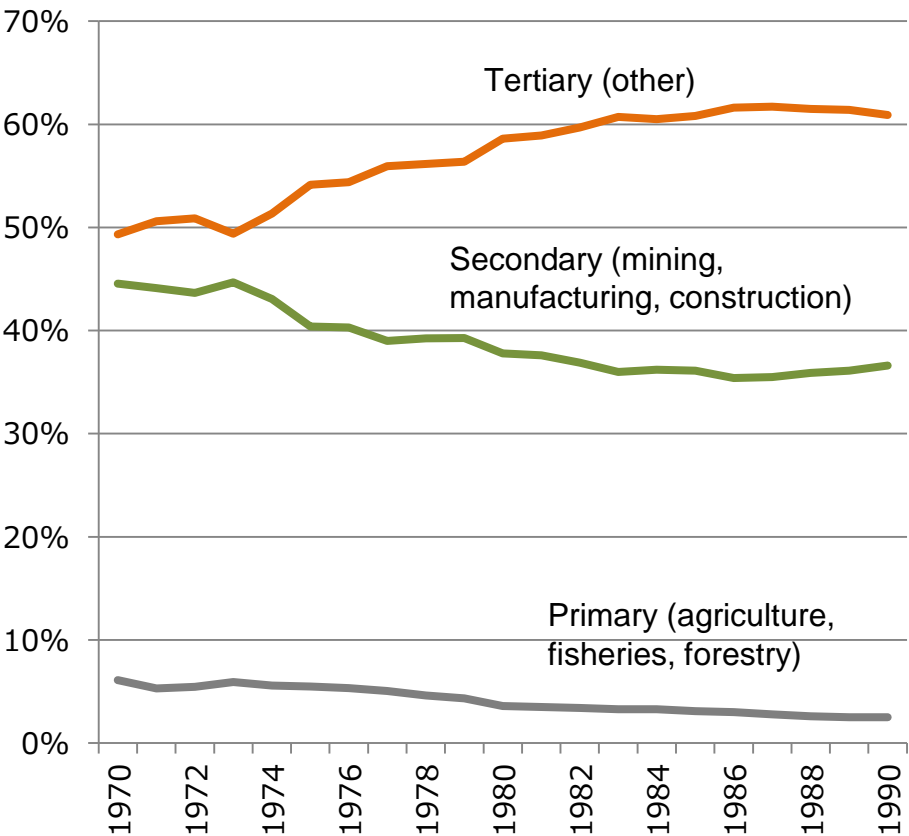
Source: “History of JHC,” Japan Housing Corporation

Aiding development of tertiary industry via investment in diverse sectors

- Japan's economy diversified between the two oil shocks and 1990, achieving stable growth as new tertiary industries emerged.
- Life insurers supported the development of a diverse range of companies in many sectors.

Growth of tertiary industries

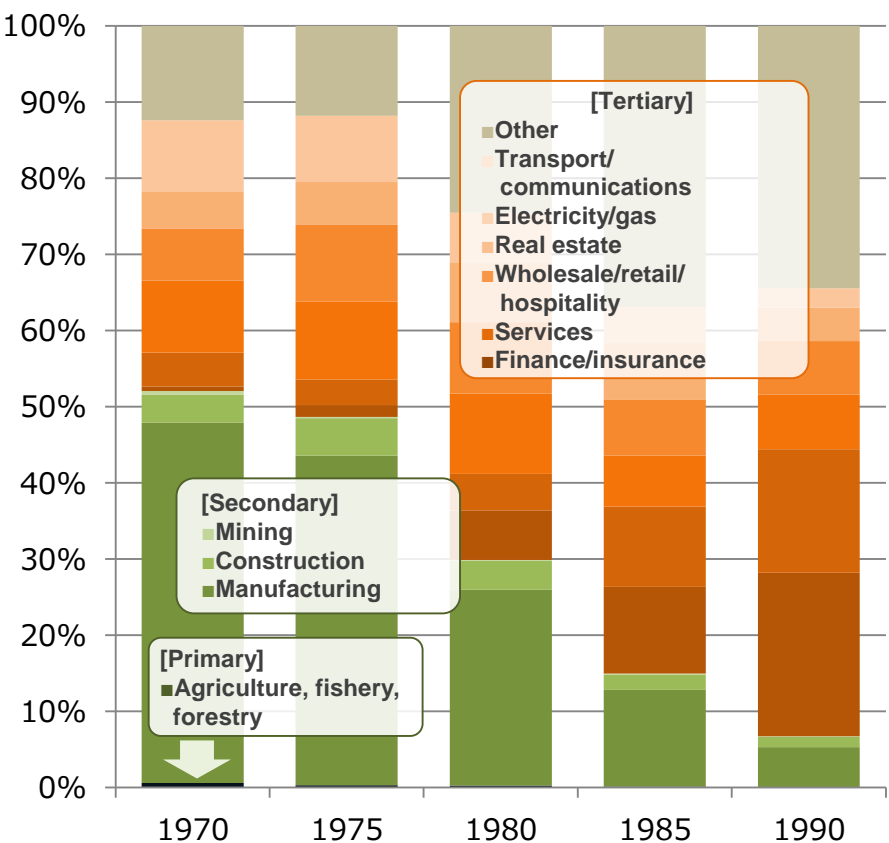
[GDP composition by industry segment]



Source: Cabinet Office (SNA)

Funding diverse range of companies

[Funding composition by industry segment]

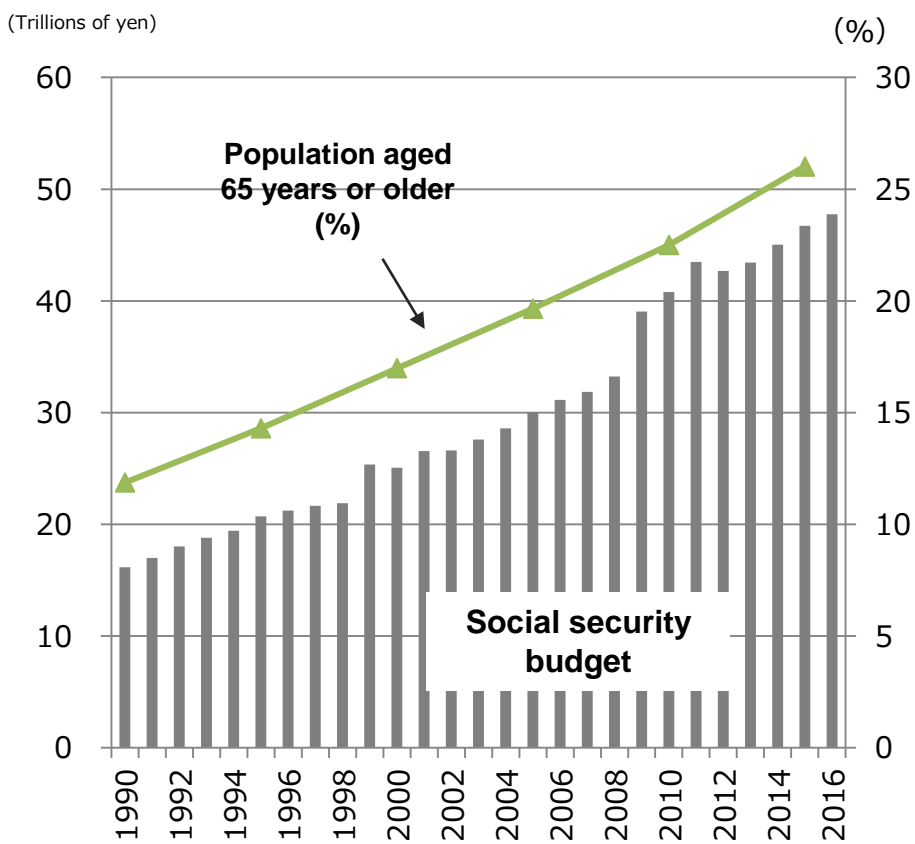


Source: LIAJ publications

Fiscal support through JGB investment amid rapid aging of Japan's society

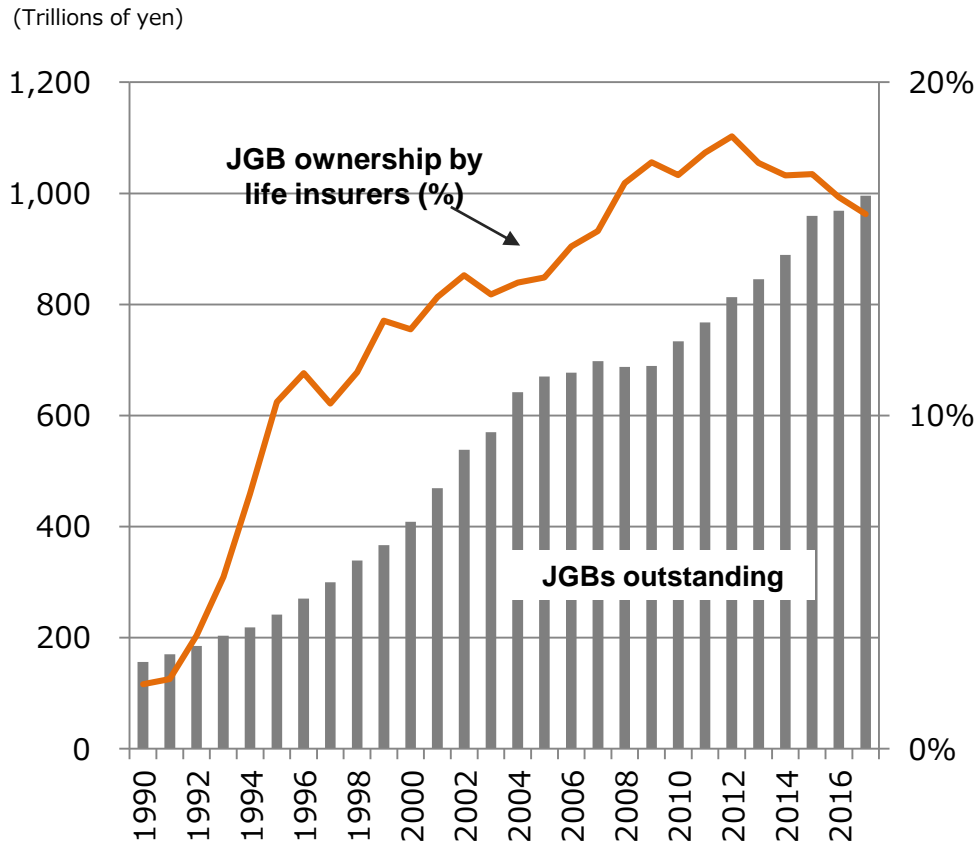
- JGB balance has expanded due to increased social security spending linked to aging.
- Since the mid-1990s, life insurers have played a fiscal support role by investing mainly in JGBs.

Aging, growth in social security spending



Sources: "Financial Statistics of Social Security," National Institute of Population and Social Security Research; "World Population Prospects," United Nations
Note: Social security spending includes both insurance premiums (paid by individuals and companies) and public-sector spending (from JGBs/taxes).

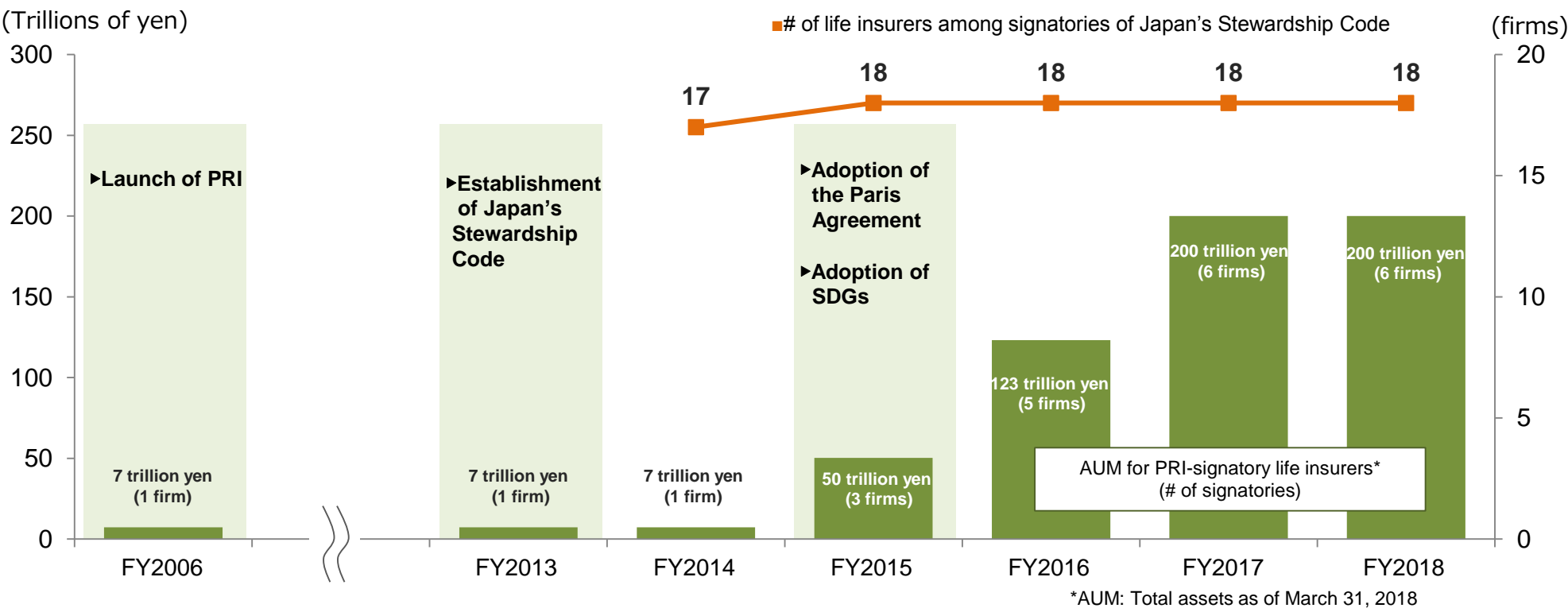
JGB balance, JGB ownership by life insurers



Source: "Flow of Funds," Bank of Japan
Note: JGBs include FILP agency bonds

Helping to achieve a sustainable society through ESG investment

- Social demands on institutional investors have increased globally with the creation of the PRI and Japan’s Stewardship Code.
- As PRI and Stewardship Code signatories, Japanese life insurers are contributing to achieving a sustainable society through ESG investment and stewardship activities.



United Nations Principles for Responsible Investment (PRI)	Global standard for ESG investing, signed by over 2,000 financial institutions worldwide.
Japan's Stewardship Code	Principles for responsible stewardship by Japanese institutional investors.
Sustainable Development Goals (SDGs)	17 targets adopted by UN as part of the 2030 Agenda for Sustainable Development
Paris Agreement	International accord adopted as part of UN Framework Convention on Climate Change

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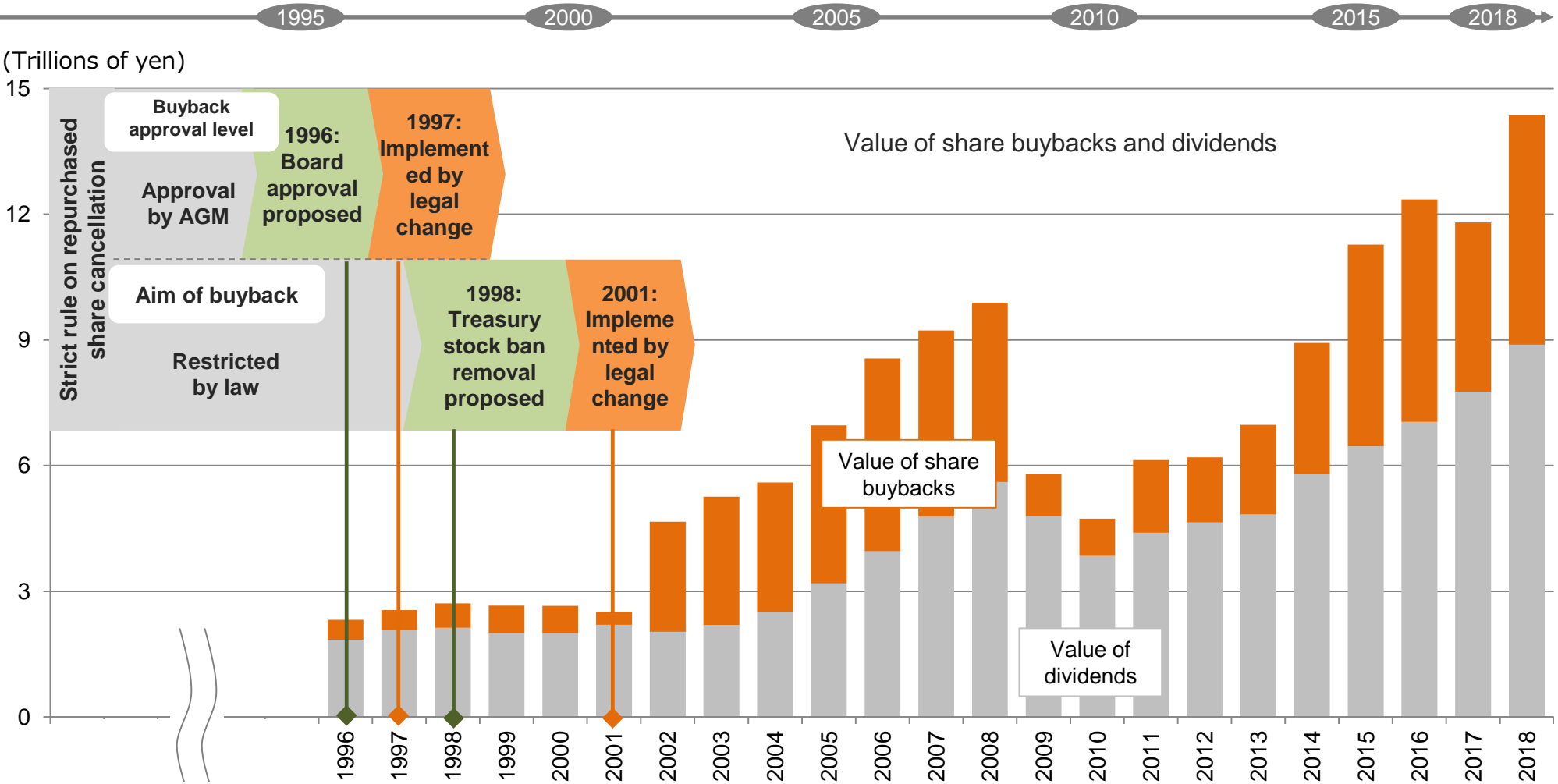
2. LIAJ initiatives to date

- Since 1974, the LIAJ has helped invigorate stock markets by proposing systemic reforms and ways of promoting sustainable corporate growth via repeated recommendations to companies, investors and governments.

	Theme	Target	Recommendations	
1974	Shareholder returns	Companies	<ul style="list-style-type: none"> Securing shareholder returns by shifting from book value issuance to market value issuance 	Equity market invigoration
		Government	<ul style="list-style-type: none"> Improving the market value issuance system (to reduce discounting of public offerings) 	
1990		Companies	<ul style="list-style-type: none"> Improving returns through dividends to shareholders Setting ROE targets and raising ROE 	
		Government	<ul style="list-style-type: none"> Share buybacks to help boost returns Systemic reforms to foster use of stock options in remuneration 	
1998	Corporate governance	Companies	<ul style="list-style-type: none"> Boosting shareholder returns, disclosure of related policies Appointing more external directors Managing AGMs for shareholder interests 	
2015		Companies	<ul style="list-style-type: none"> Improving disclosure to support dialogue 	
	Dialogue	Investors	<ul style="list-style-type: none"> Upgrading dialogue capabilities 	
2017		Companies	<ul style="list-style-type: none"> Improving ESG disclosures 	
	ESG	Investors	<ul style="list-style-type: none"> Promoting long-term dialogue Making shareholder voting processes more transparent 	

Contribution to greater diversity in returns to shareholders by advocating share buybacks

- Recommendations in the 1990s to promote share buybacks for boosting shareholder returns helped to ease strict regulations.
- Since the 2000s, shareholder returns have been diversified as firms gained flexibility to tailor buybacks to internal aims.



Source: I-N Information Systems, Ltd.

Note: Treasury stock are shares repurchased or held for any purpose

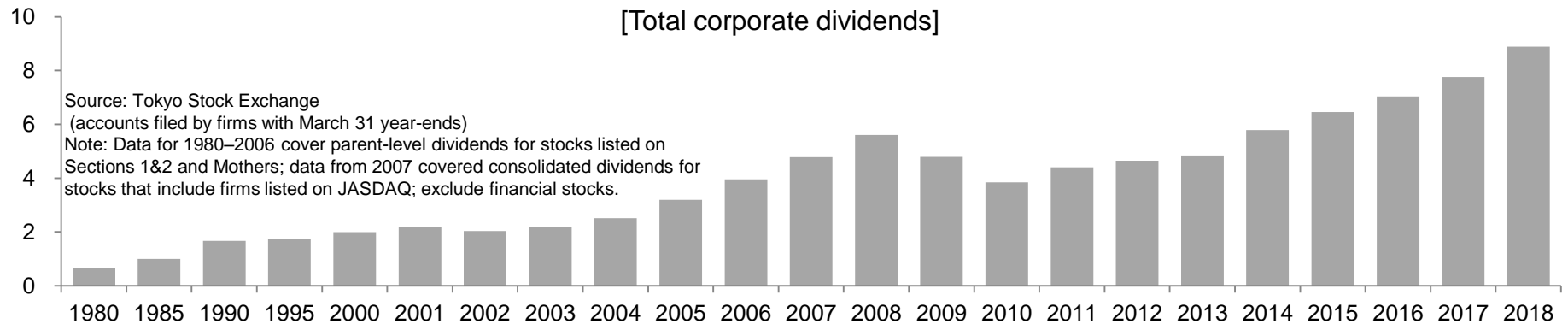
Advocating for better shareholder returns and disclosure of targets, and higher dividends

- Repeated recommendations advocating improvement of shareholder returns (from 1970s onward) and the disclosure of related targets (from 1990s onward).
- Advocacy has generated results, with more companies consistently increasing dividends and disclosing shareholder return targets.

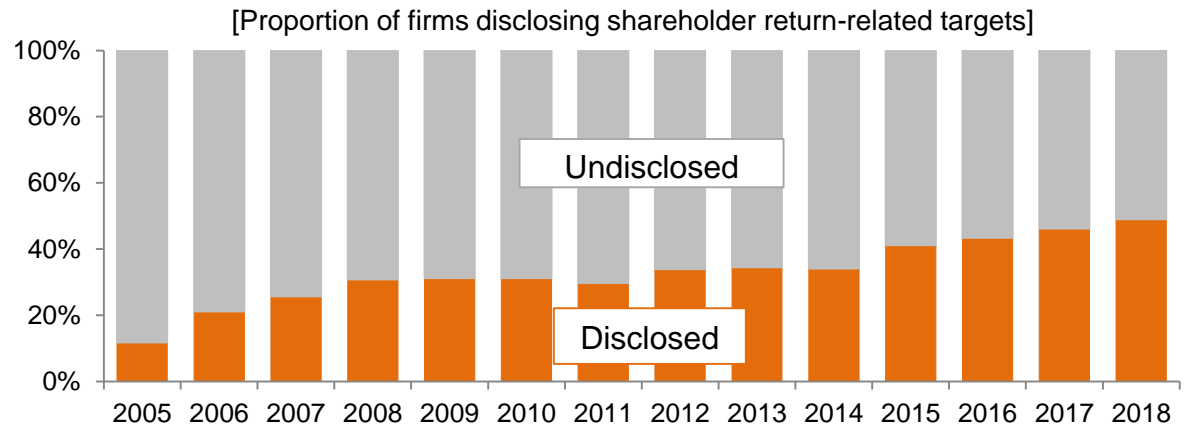


[Recommendation] Improve shareholder returns

(Trillions of yen)



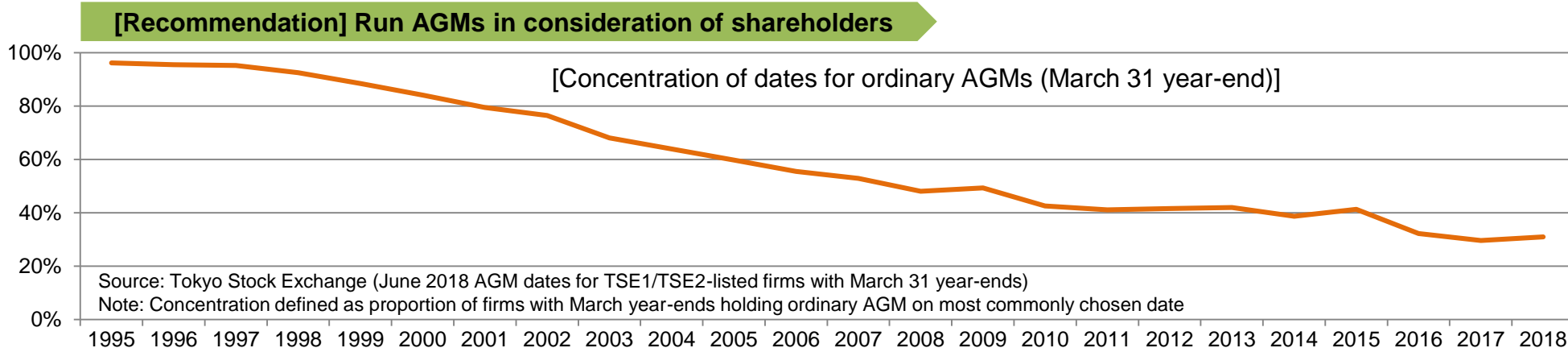
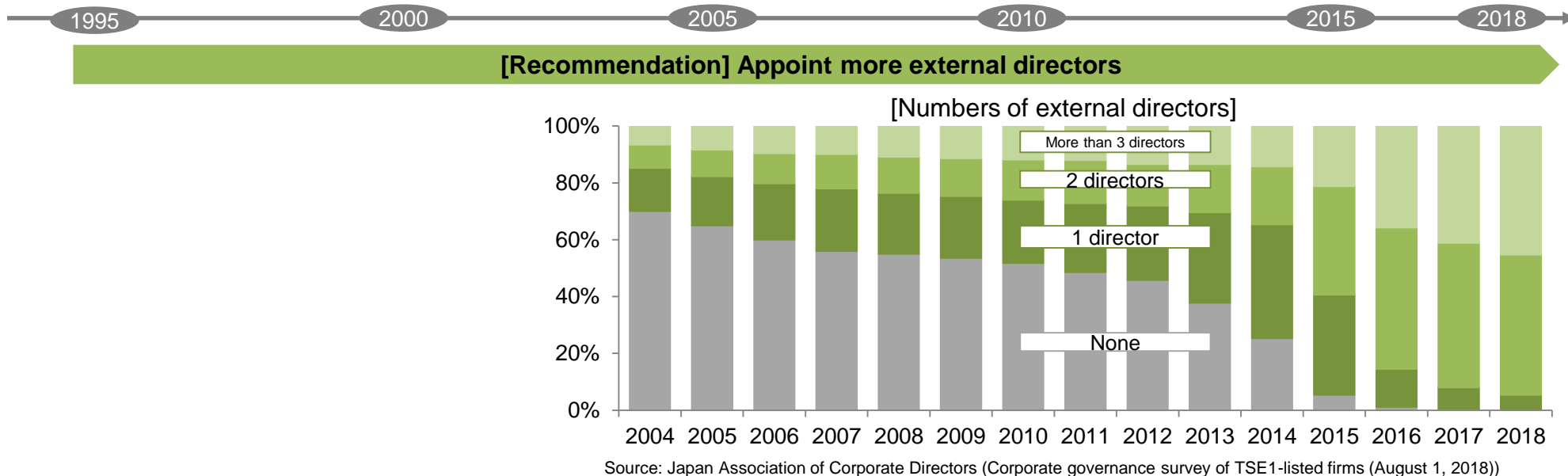
[Recommendation] Improve disclosure of shareholder return-related targets



Source: LIAJ (Based on survey of top 1,200 stocks by market capitalization)

Advocating for more external directors, more annual general meeting (AGM) date variation, and better governance

- Repeatedly advocating since mid-1990s for better corporate governance by appointing external directors and running AGMs in consideration of shareholder interests.
- Advocacy has generated results, with more external directors appointed and progress on spreading dates of AGMs.



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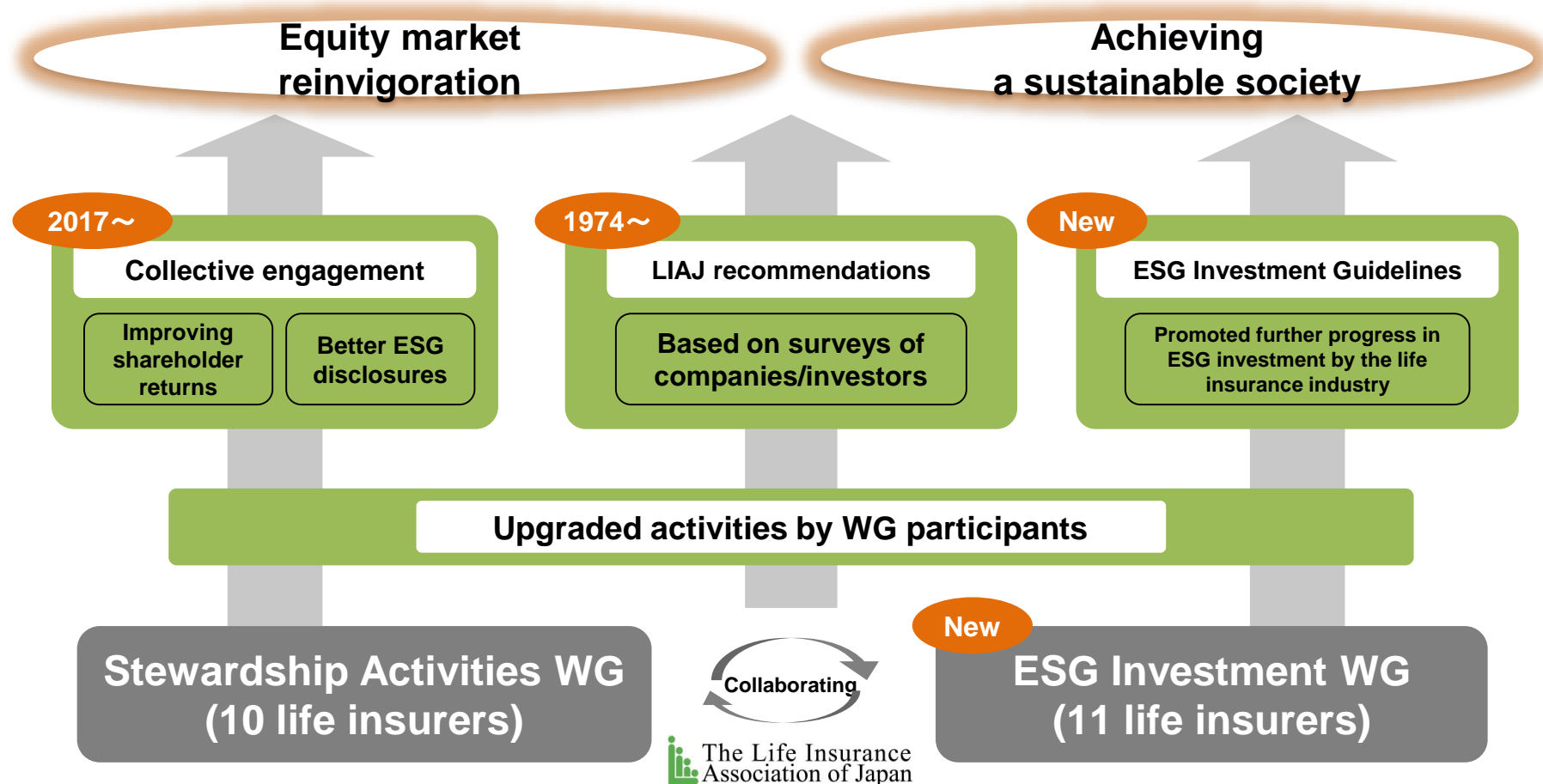
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3. LIAJ initiatives in FY2018

- Working groups on stewardship activities and ESG investment were set up to contribute to equity market reinvigoration and achieving a sustainable society.
- WG progress: Upgraded activities by corporate participants; formulation of ESG Investment Guidelines; implementation of collective engagement; publication of joint WG report.



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ESG dialogue interviews conducted to improve quality of dialogue

- Stewardship Activities WG participants invited external experts to host seminars with the aim of improving the quality of dialogue for each company.

[Presenters]



Examples of progressive initiatives

◆ ESG dialogue perspectives

- Are ESG initiatives central to management?
- Are ESG initiatives treated as proper **investments aimed at growing corporate value** rather than a “cost” for social contribution?
- Is importance of ESG dialogue achieved from the viewpoint of **risks and opportunities** (especially the latter) amid changing business conditions?

◆ Process of ESG dialogue

- Following up** post-dialogue **initiatives**
- Using **“Guidance for Collaborative Value Creation”**

*Disclosure/dialogue policy guidelines formulated by METI in 2017 to help increase long-term corporate value

Issues related to integrated reporting

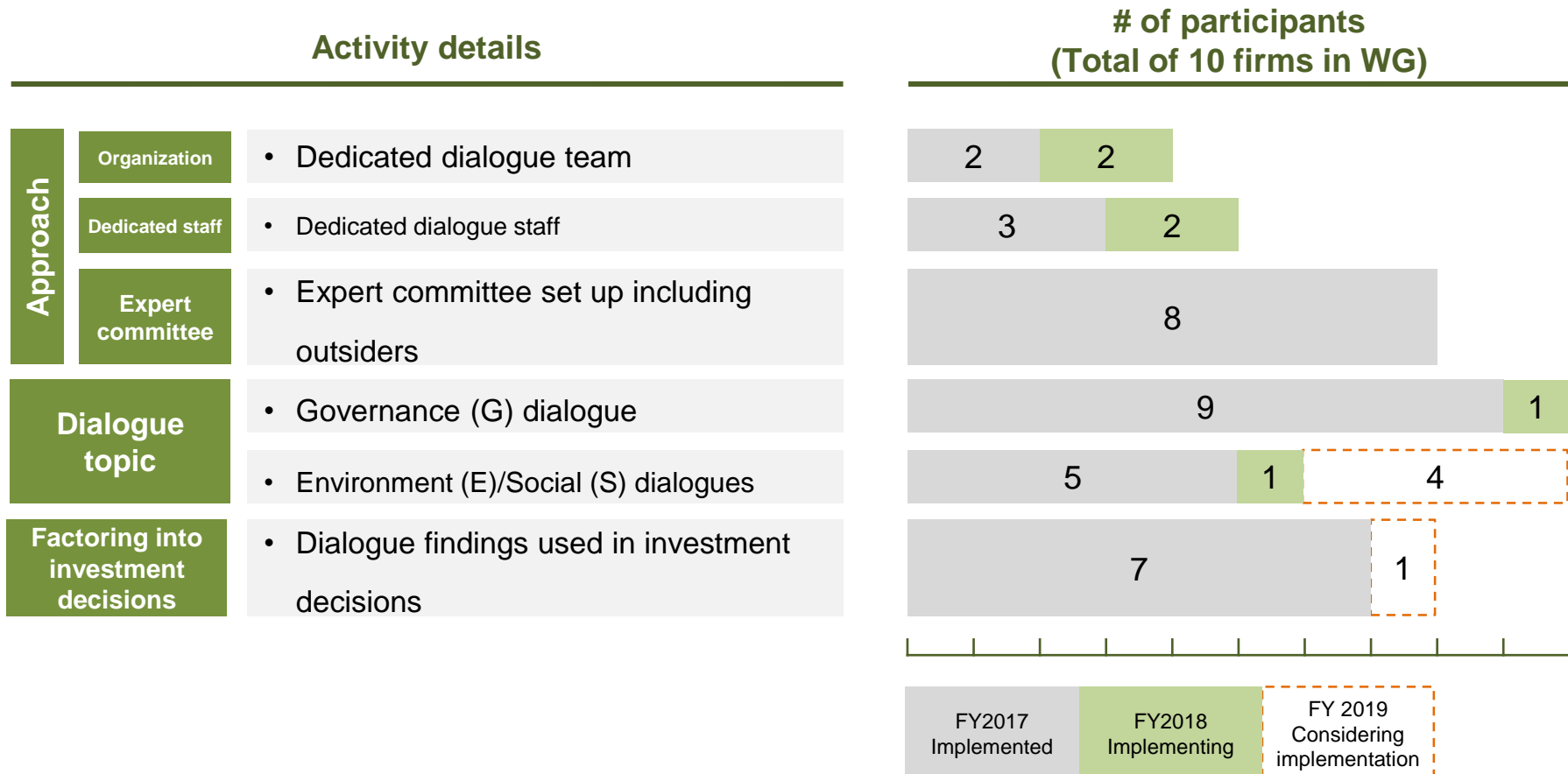
◆ Perspectives emphasized by investors

- Does the integrated report simply collate information or **show an integrated approach**?
- Does it contain an outline of **the conceptual approach taken by senior management**?
- Does report content include **future-oriented** initiatives related to achieving SDGs?
- Is a clear link drawn between ESG metrics and **the value creation stories**?
- Are **materiality themes** (issues considered important for the company in terms of society and business) identified?
- Does report content promote better internal communications or aid external recruitment?

Better quality of dialogue by companies participating in Stewardship Activities WG

Initiatives and approaches conducted or considered by WG participants to improve dialogue content

- Based on interviews with experts and by sharing best practice, each WG participant is studying ways to improve E/S dialogues and use in investment decisions from FY2019.



Interviews on progressive actions to enhance initiatives/approaches

- WG participants invited external experts to host seminars to foster understanding of ESG investing and enhance initiatives/approaches

[Presenters]



Government Pension Investment Fund



SUMITOMO MITSUI TRUST BANK

Ministry of the Environment

Examples of advanced investment approaches

- ◆ **Establishing approaches**
 - Higher level of engagement achieved using internal assessments as a **PRI signatory**
 - **ESG factors reflected** in investment policies
 - Proactively seeking engagement with equity and credit analysts
- ◆ **ESG research**
 - Develop in-house evaluation methods for non-financial information
 - **Quantitative** analysis of impact of ESG factors on corporate value
- ◆ **Promoting widespread adoption**
 - Actively participate in **global initiatives**
 - Promote ESG investing via seminars

Issues for Japan to adopt ESG investing

- ◆ **Companies**
 - Inadequate **ESG disclosures**
 - Unclearly **link ESG initiatives with corporate value**
- ◆ **Investors**
 - **Difficulties recruiting/retaining people** with ESG investment skills
 - Lack of established methods for evaluating ESG information (incl. rating agencies)
- ◆ **Issues for government**
 - **Slower Japanese response to climate change issues** than other countries
 - Need for system to promote better **ESG disclosures**

Better ESG initiatives/approaches by companies participating in ESG Investment WG

Initiatives/approaches conducted or considered by WG participants

- Alongside interviews with experts and sharing of information on initiatives/approaches, WG participants plan to upgrade initiatives relating to ESG investment from FY2019, led by formulation of policy

Examples of progressive initiatives

Initiatives and Approaches	Policy	<ul style="list-style-type: none"> Become signatory to PRI Formulate ESG investment policy
	Organization	<ul style="list-style-type: none"> Create cross-divisional meeting structures
	Corporate training	<ul style="list-style-type: none"> Institute internal ESG investment training
ESG investment methods being used		<ul style="list-style-type: none"> Themed investment (*1)
		<ul style="list-style-type: none"> Integration (*2)
		<ul style="list-style-type: none"> Negative screening (*3)
		<ul style="list-style-type: none"> Positive screening (*4)
		<ul style="list-style-type: none"> Impact investment (*5)

of participants (Total of 11 firms in WG)

6	1	4	
4	6	1	
4	2		
4	2	1	
11			
8	2		
5	2	2	2
2	1	4	
1	2		
At WG inception (Jul. 2018)	FY2018 Implementing	FY2019 Implementing	FY2019 Considering implementation

*1: Investment in assets relating to defined ESG theme

*2: ESG factors reflected in investment process

*3: Defining securities for portfolio exclusion from an ESG perspective

*4: Building portfolios with high ESG ratings

*5: Investment aimed at creating measurable social and environmental impacts, as well as generating economic gains

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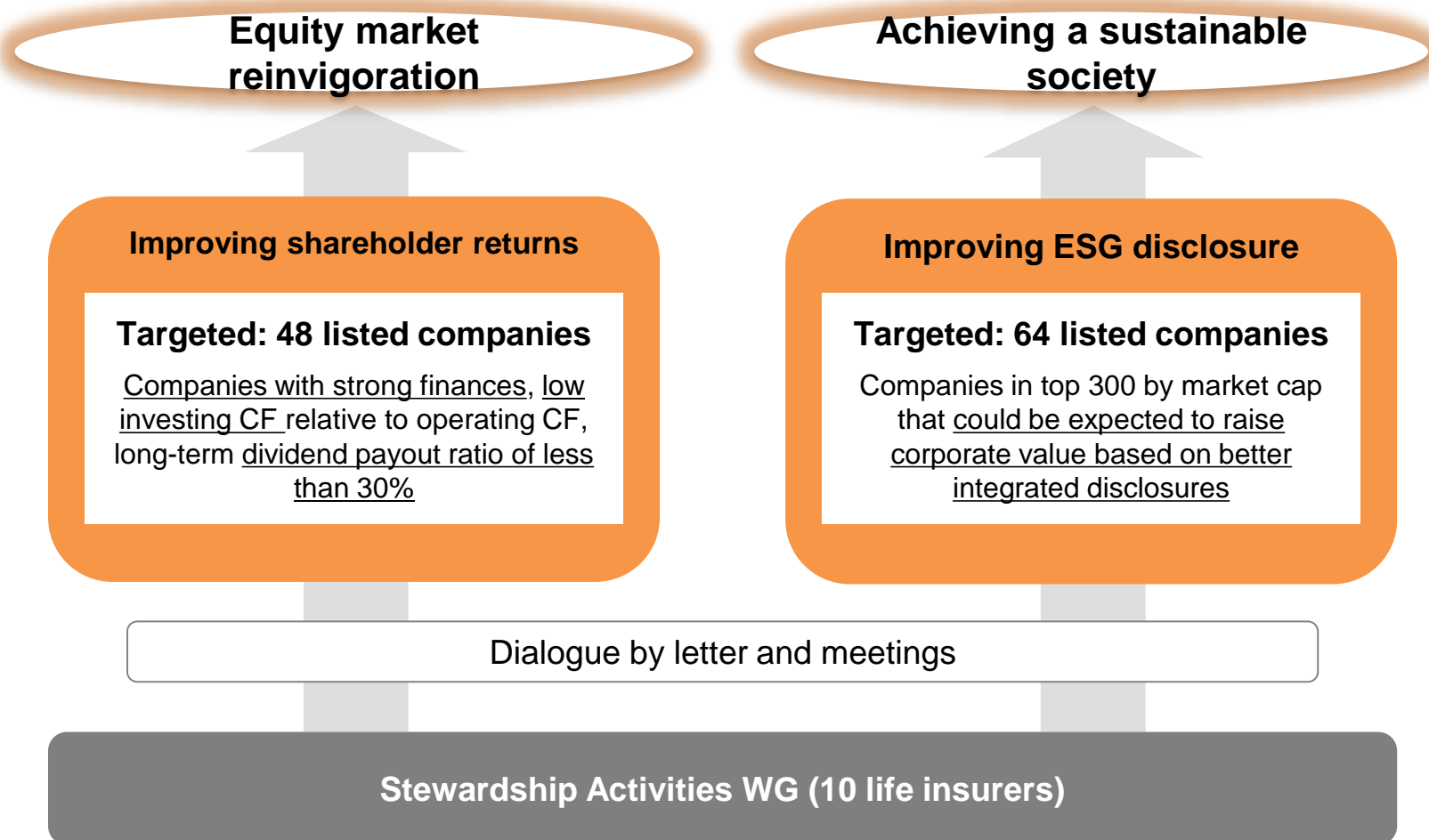
(2) Implementation of collective engagement

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Themes identified as “improving shareholder returns” and “ESG disclosures”

- From FY2017, to help reinvigorate the equity market in mid- to long-term and achieve a sustainable society, the life insurers in the Stewardship Activities WG jointly initiated a collective engagement campaign to increase corporate awareness.
- In FY2018, the campaign targeted a total of 112 companies on the themes of improving shareholder returns (48 companies) and improving ESG disclosures (64 companies).

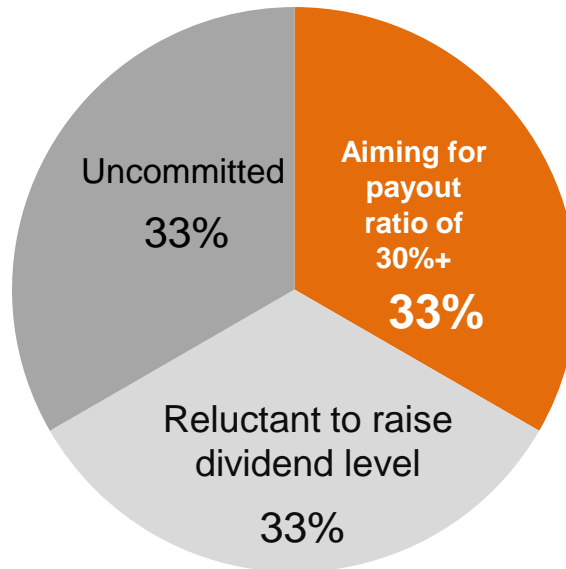


Confirmed a degree of success for both themes via mail/phone campaigns

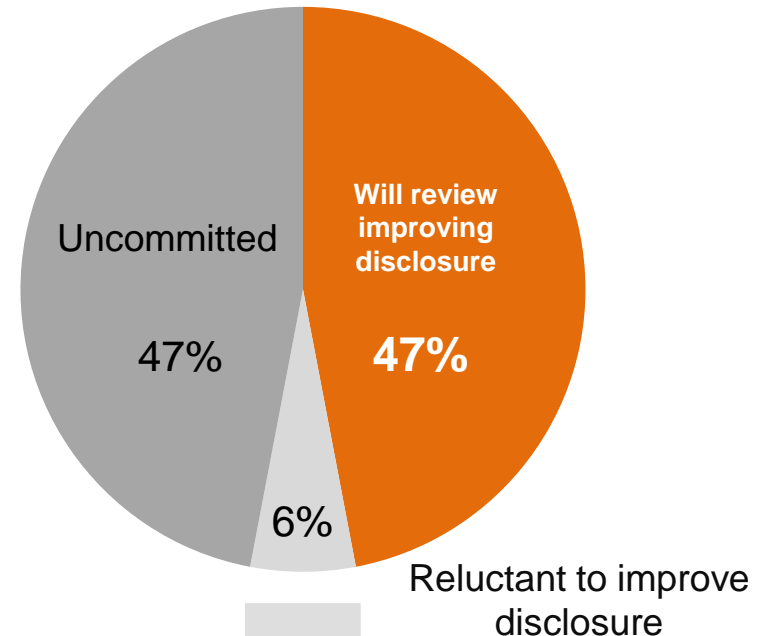
- For both themes, about 30% of companies that were contacted accepted LIAJ recommendations and promised a constructive review.
- Future dialogue will continue to focus on increasing payout ratios to at least 30% and improving ESG disclosure.

[Reaction of companies contacted]

Improving shareholder returns



Improving ESG disclosure



Further dialogue aims to raise payout ratios to at least 30% and improve ESG disclosures

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Positioning of ESG investment guidelines

- To help life insurers consider ESG factors in AM and move towards achieving a sustainable society, the LIAJ has formulated guidelines in line with its FY2018 Code of Conduct.

LIAJ Code of Conduct (extracts)

Note: Summaries of original text

6. Engaging AM tailored to life insurance business

- Ensure AM takes account of profitability, safety, liquidity and public utility.
- Consider ESG factors in AM to help in achieving a sustainable society.
- Fulfill stewardship responsibilities.

7. Promoting efforts to address environmental issues

- Actively volunteer to address environmental issues such as promoting energy efficiency.
- Raise environmental awareness of executives and employees through education.

8. Promoting social service activities

- Proactively engage in social service activities to develop a healthy and sustainable society.

ESG investment guidelines for AM by life insurers

◆ Fundamental concept

Taking various perspectives into consideration, LIAJ member firms will promote ESG investment that contributes to achieving a sustainable society

◆ Main initiatives

(1) Addressing environmental/social issues

e.g. Invest in companies and businesses that are helping to address climate change; supply long-term funding for development of social infrastructure

(2) Help eradicate inhumane weapons

As a rule, do not invest in any firms involved in manufacture of cluster munitions

Reference: ESG Investment Guidelines (original text)

1. Purpose

The guidelines provide a fundamental concept and main initiatives for implementation to ensure environmental, social and governance (ESG) factors are reflected in asset management practices so all the Life Insurance Association of Japan (here in after LIAJ) member firms can help address social issues as part of achieving a sustainable society, in line with the Code of Conduct.

2. Fundamental concept

The life insurance business is highly public in nature, being closely involved with stability and improvement of national living standards, economic development and the achievement of a sustainable society. Therefore, in addition to profitability, safety, and liquidity, member firms must also consider the public aspects of asset management.

The idea of taking account of environmental, social and governance factors in investing (ESG investment) has been promoted since the UN published the Principles for Responsible Investment (PRI) in 2006. ESG investment has assumed greater importance since the adoption of the Sustainable Development Goals in 2015.

In this context, it is vital for LIAJ member firms to promote ESG investment (e.g. incorporating ESG factors into investment processes, or investing in ESG-themed assets) based on their respective asset management policies and investment approaches, and SDGs, so that firms can help to achieve a sustainable society.

3. Main initiatives

(1) Contribution to addressing environmental/social issues

Efforts to address environmental issues and develop social infrastructure are an important part of achieving a sustainable society. LIAJ member firms are striving to address social issues through asset management practices.

(For example, invest in companies and businesses that are helping to address climate change, or supply long-term funding for the development of social infrastructure)

(2) Help eliminate inhumane weapons

Some weapons, especially cluster munitions have been recognized by Japan and other members of the international community as being inhumane due to the grave harm they inflict on civilian populations. LIAJ member insurers, in principle, do not invest in any firms involved in the manufacture of these weapons.

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FY2018 policy recommendations

- Improving shareholder returns, improving corporate governance, enhancing dialogue, and promoting ESG initiatives
- Our recommendations in FY2018 for promoting ESG initiatives towards achieving a sustainable society

Recommendations		Target	Recommendations		Target
Improving shareholder returns	① Raise shareholder returns over long term (dividend payout ratios of at least 30%)	Companies	⑧ Revised Improve disclosure of ESG initiatives via integrated reporting	Companies	Companies
	② Set ROE targets adjusted for cost of capital and target higher ROE levels		⑨ New Incorporate ESG initiatives in medium-term management plans		
Improving corporate governance	③ Revised Improve disclosures about expectations of external directors and their performance		⑩ Revised Promote dialogue on addressing ESG issues from medium/long-term perspectives	Investors	Investors
Enhancing dialogue	④ Revised Improve disclosures/dialogues relating to long-term investment strategy		⑪ New Formulate ESG investment policies		
	⑤ Hold dialogues with top management and share content with management teams		⑫ New Take steps to promote ESG initiatives across government agencies/departments	Government	Government
	⑥ Provide clearer explanations of the proposed agenda for AGMs		⑬ New Measures to support promoting issuance of green bonds, etc.		
	⑦ Greater transparency for shareholder voting processes	Investors	⑭ New Set policies to promote understanding of need for climate change-related disclosures		

Survey on initiatives to enhance corporate value

[Purpose] To implement recommendations for equity market reinvigoration and achieving a sustainable society based on results of surveys on initiatives and awareness of companies/investors

[Surveyed/responded]: Listed companies 48% (573/1,206 companies); investors 50% (114/230 companies)

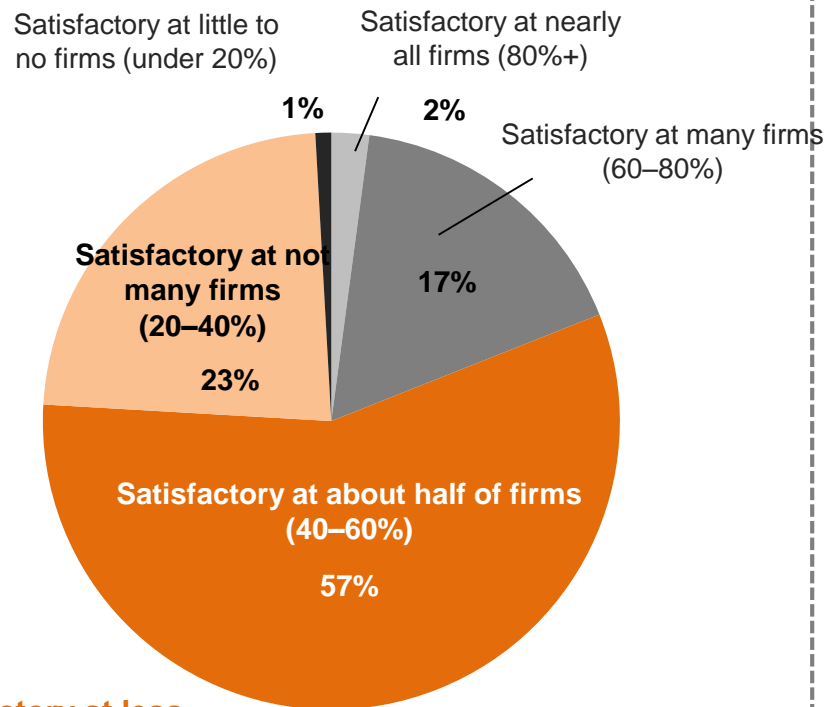
Increasing shareholder returns over the long term based on dialogue with investors

- 81% of investors are unsatisfied with current levels of shareholder returns and dividends
- Expectations of 65% of investors for payout ratios to exceed 30% over long term at odds with ratios of under 30% at majority of firms

1

Increase shareholder returns over long term, setting target for payout ratio of at least 30% after gauging investor expectations through dialogue

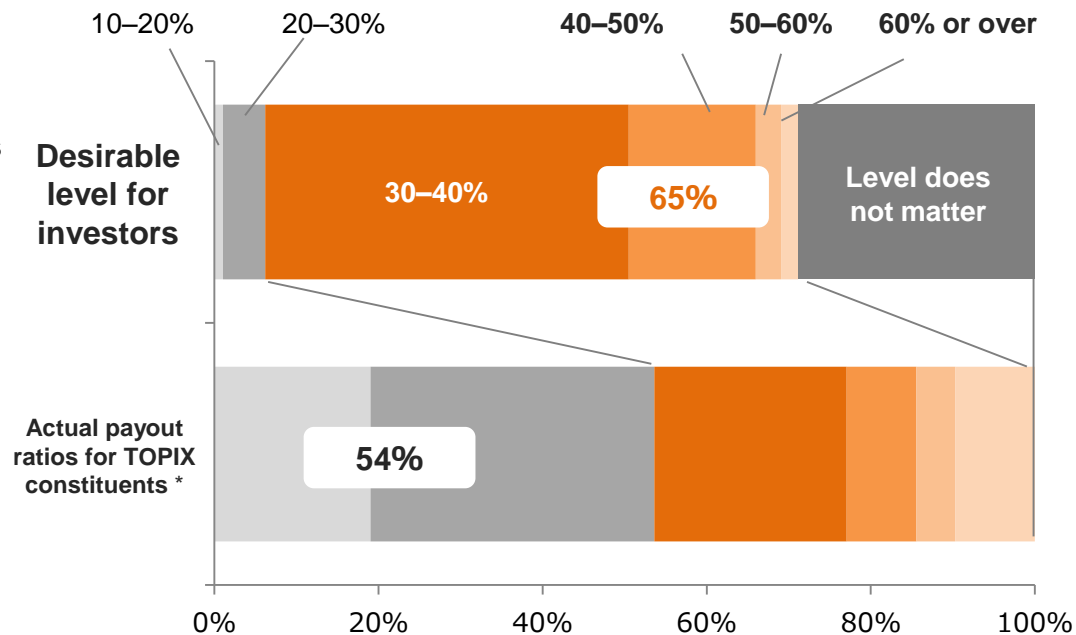
[For investors] Satisfaction level for shareholder returns and dividends (select one)



“Satisfactory at less than half of firms” totals 81%

[For investors] Desired long-term level of dividend payout ratios (select one)

Reference: Actual payout ratio distribution

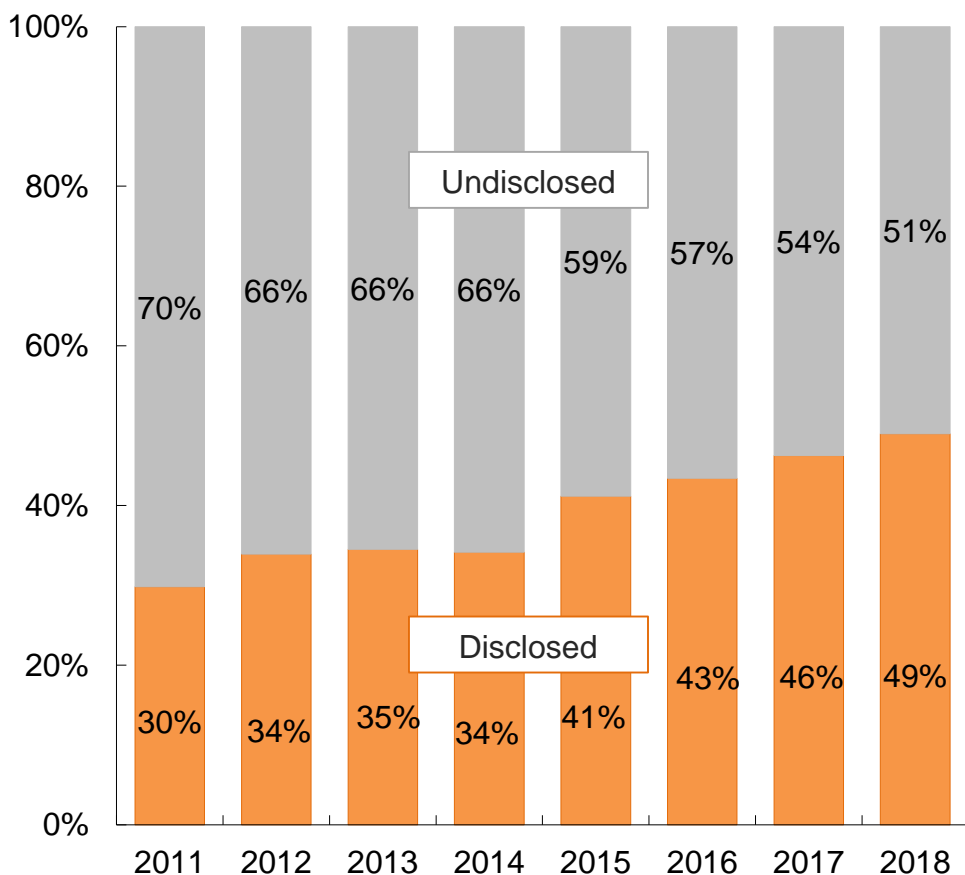


*Source: Nikkei QUICK Note: Loss-making firms excluded

Investors: 114

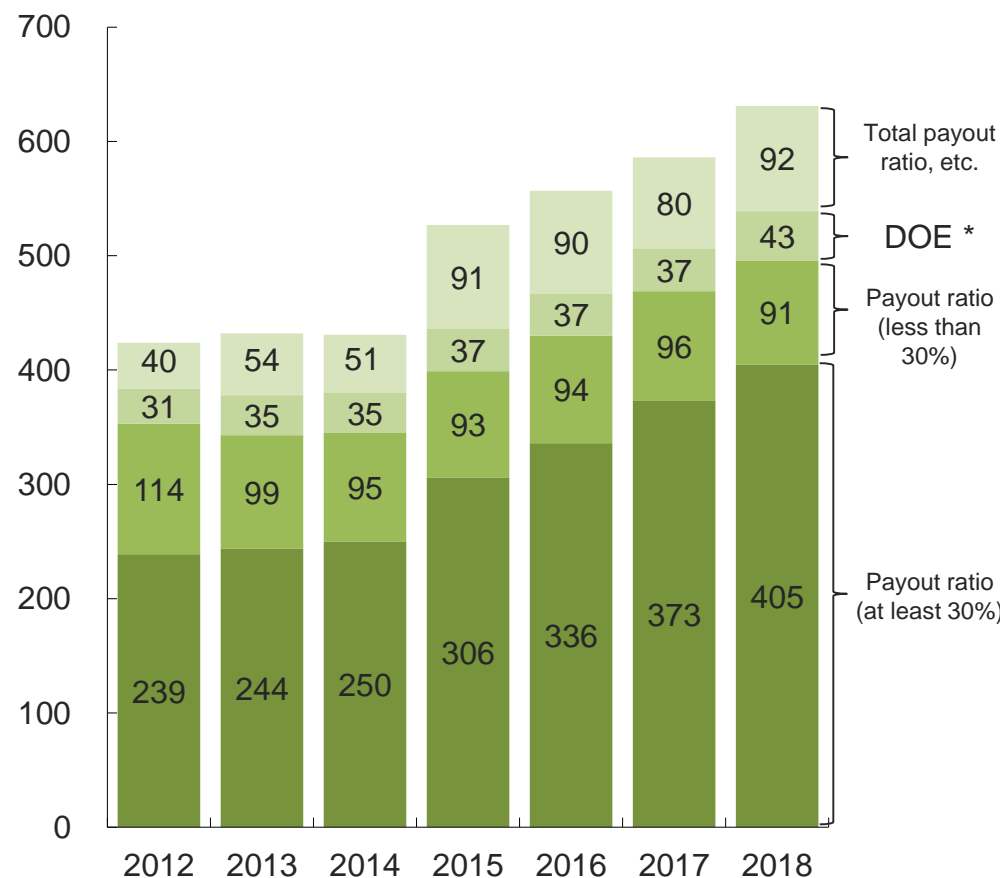
Reference: Disclosure of numerical shareholder return (SR) targets

Proportion of firms with official SR targets



Source: LIAJ (based on survey of top 1,200 stocks by market capitalization)

Numbers of firms disclosing SR targets



Source: LIAJ (based on survey of top 1,200 stocks by market capitalization)

Note: Firms with multiple SR targets counted for each target

*DOE: dividend-on-equity ratio

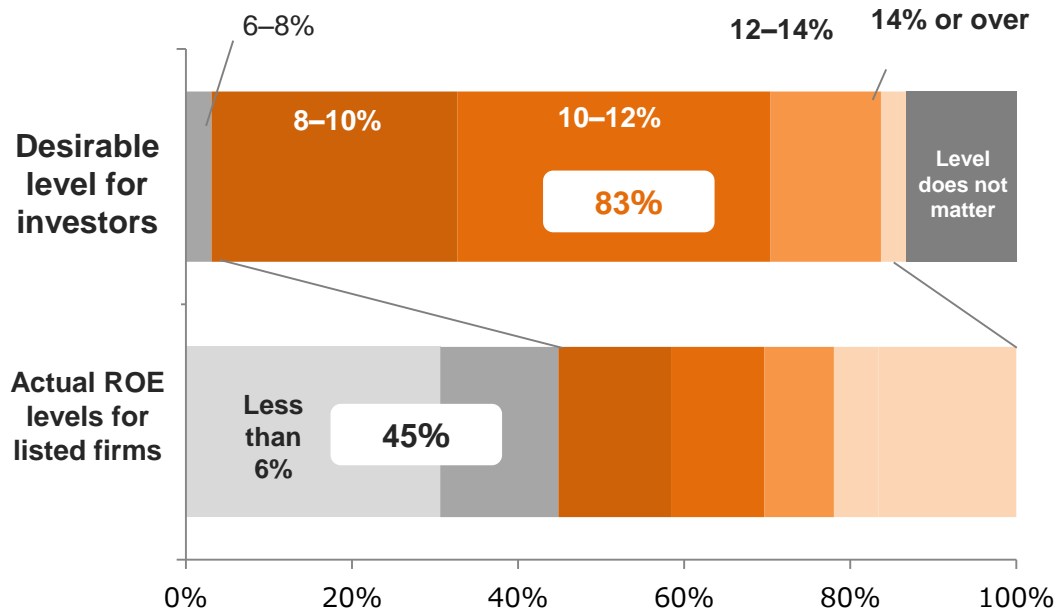
Set ROE targets adjusted for cost of capital and target higher ROE levels

- About 80% of investors expect ROE of 8%+, but ROE under 8% at 45% of listed firms
- Failure by about half of firms to calculate cost of capital (return expected by shareholders) partly explains investor expectation gap

2 Set ROE targets adjusted for cost of capital for long-term improvement in ROE levels

[For investors] Desired long-term level of ROE (select one)

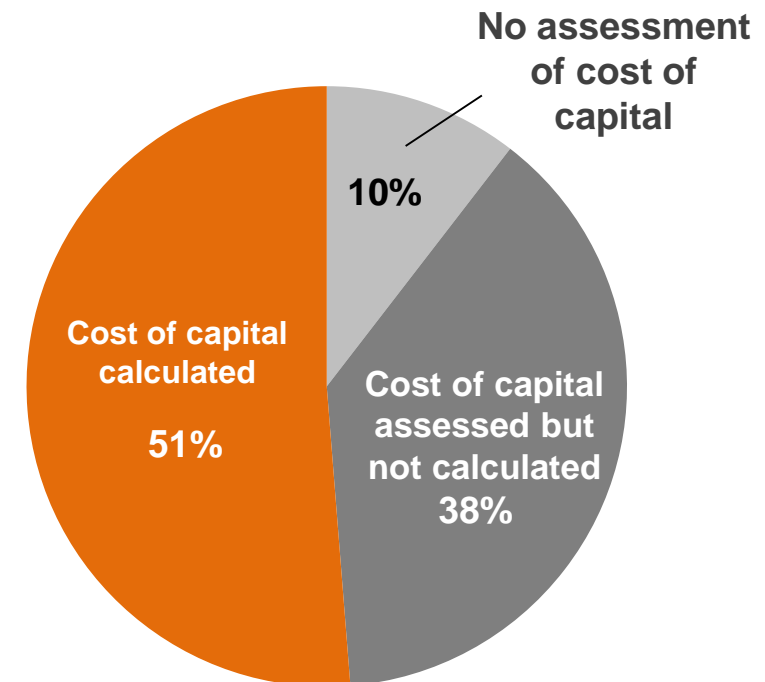
Reference: ROE distribution for listed firms



Note: Loss-making and financial firms excluded

[For companies]

Do you calculate a detailed cost of capital?
(select one)



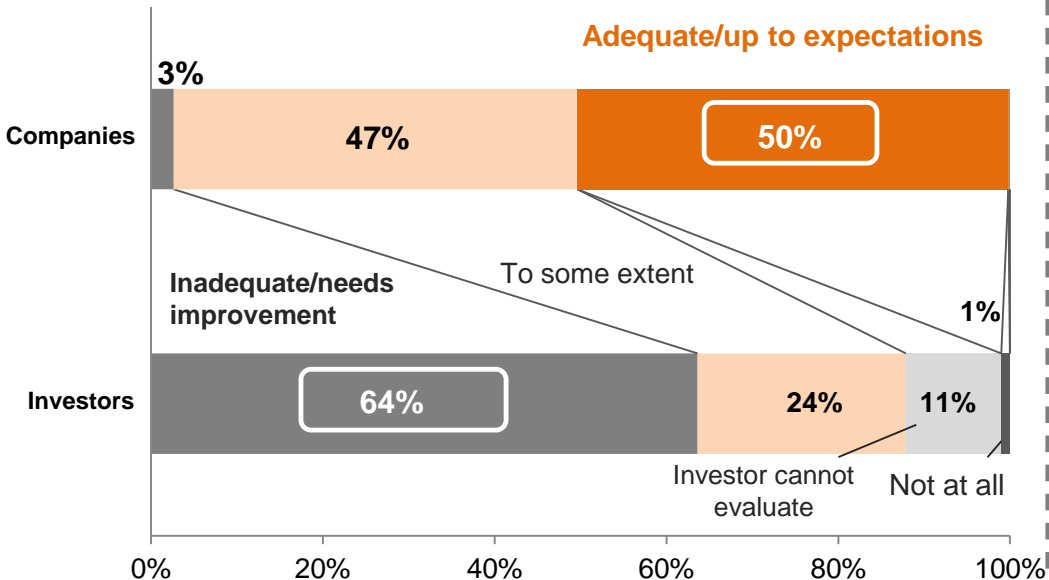
Improve disclosures about expectations of external directors and their performance

- Many investors see room for improvement in the role of external directors, an area where Boards of Directors could be more effective.
- With about 50% of companies seeing current external director roles as “adequate,” there is a gap with investor views on the issue.

3

Improve disclosures about expectations of the role and output of external directors, and explain to investors via respectful dialogue

[For companies/investors] Are external directors currently doing the job that is expected of them? (select one)



[For companies/investors] What do you feel are the key issues in making the Boards of Directors more effective? (select up to three)

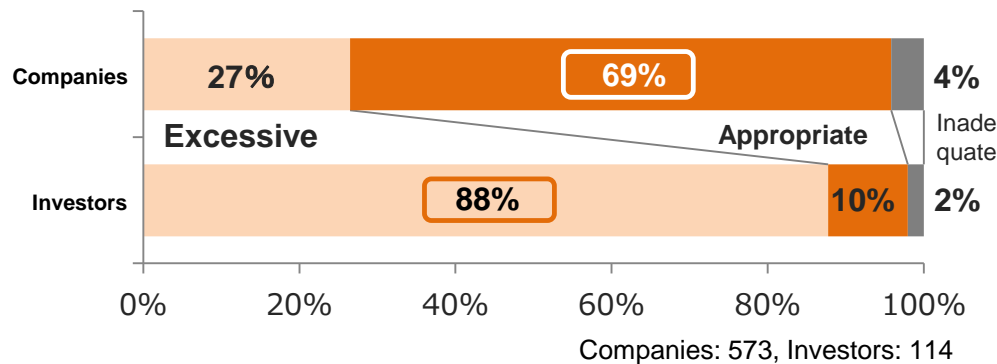


Improve disclosures/dialogues relating to long-term investment strategy

- About 70% of companies believe cash balances are appropriate, but roughly 90% of investors see current levels of cash/deposits (at historic highs for Japanese firms) as excessive.
- With long-term investment/financial strategy, companies see capex as vital, while investors emphasize investment in intangibles such as IT, R&D and human capital.

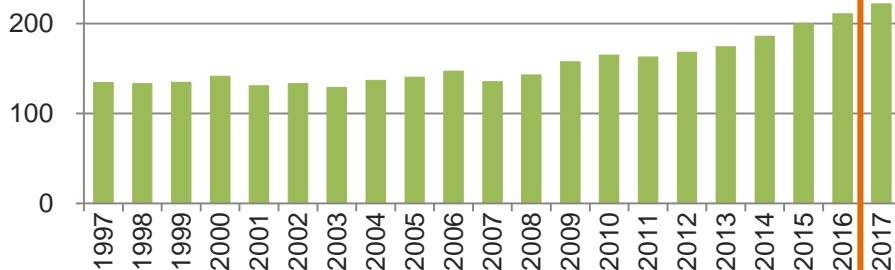
4 Target appropriate cash levels, and improve disclosure/dialogue relating to long-term investment strategy

[For companies/investors] How do you see current levels of cash holdings? (select one)



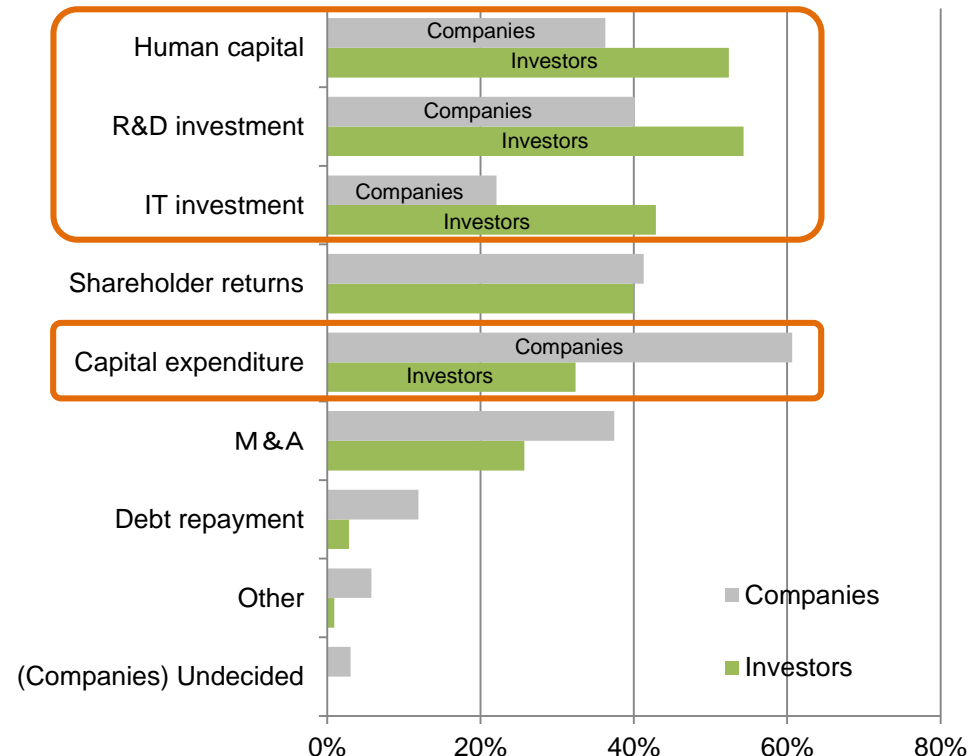
Reference: Corporate cash/deposit balances

(Trillions of yen)

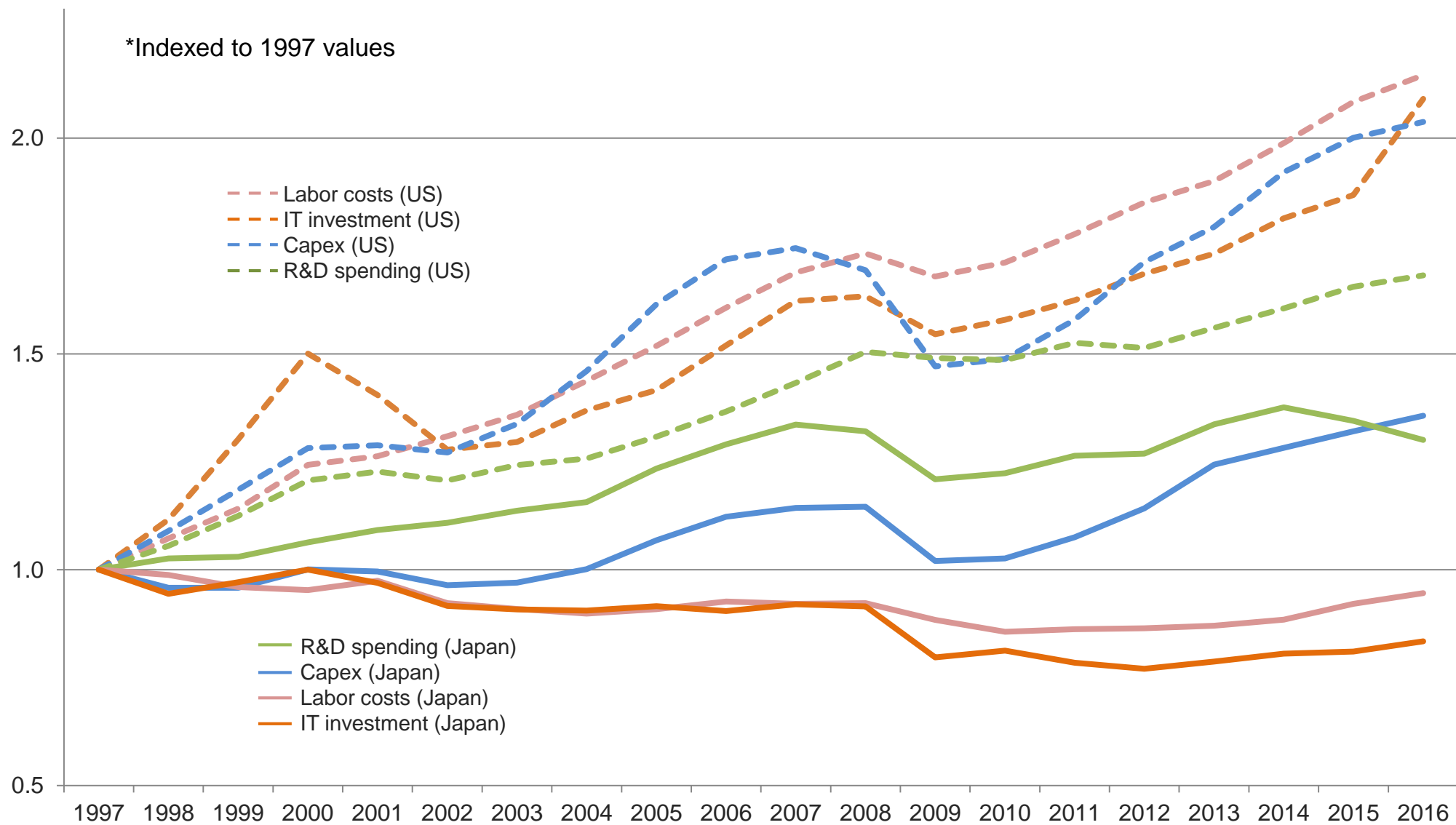


Source: Financial Statements Statistics of Corporations by Industry (excluding financial firms and insurers)

[For companies/investors] What are important areas to consider for long-term investment and financial strategy? (select up to three)



Reference: Labor costs, IT investment, capex, and R&D spending in Japan/US



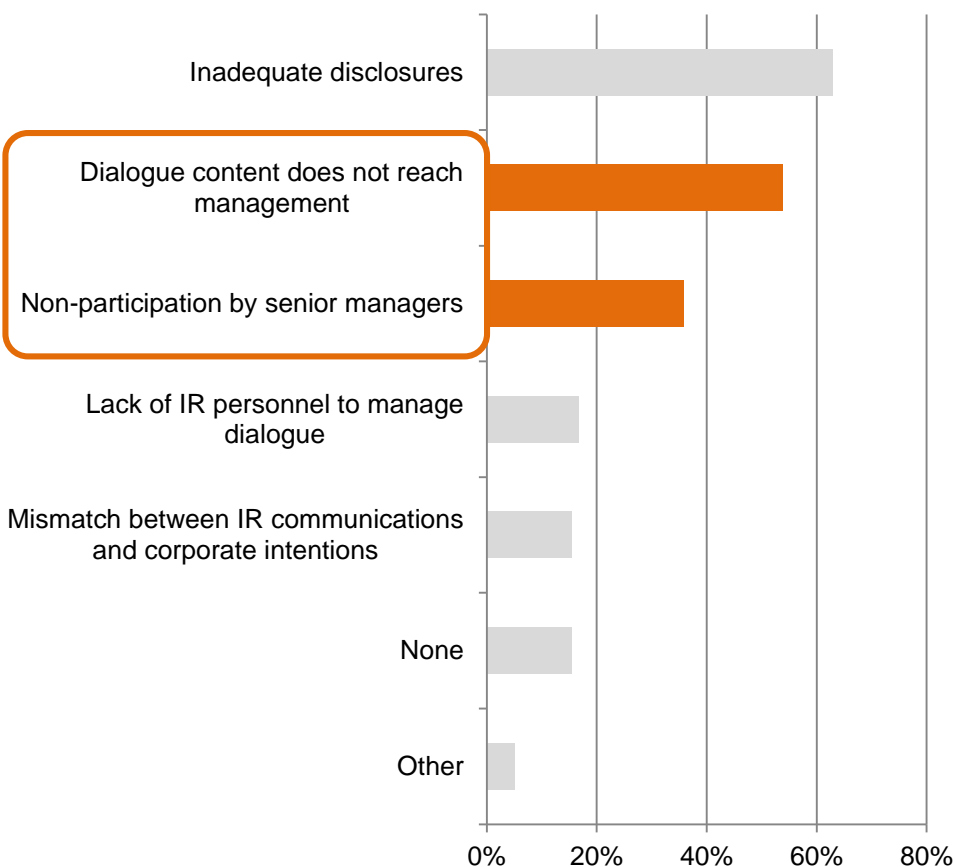
Sources: OECD statistics, "Databook of International Labour Statistics" by Japan Institute for Labour Policy and Training, "2018 WHITE PAPER Information and Communication in Japan" by MIC

Hold dialogues with top management and share content with management teams

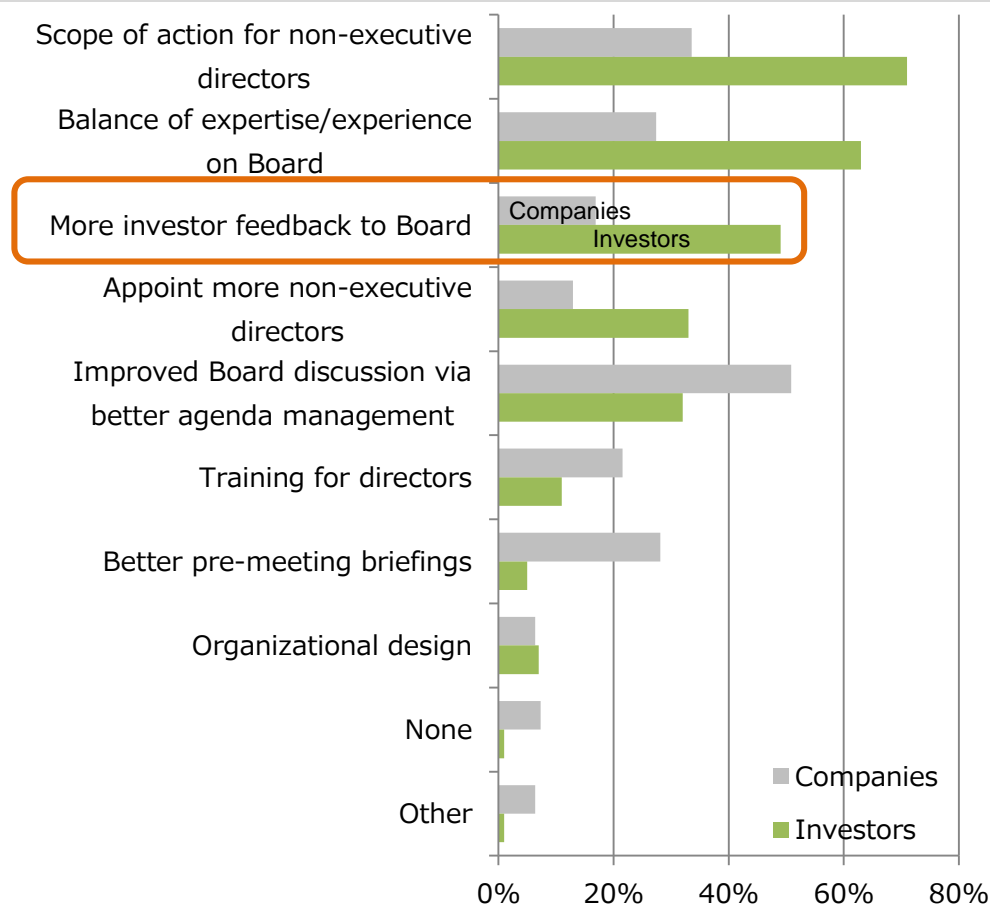
- After inadequate disclosures, investors list key dialogue-related issues as coordinating dialogue content with management and lack of engagement among senior managers.
- Many investors think Board effectiveness could be enhanced if directors received more feedback from investors.

5 Actively involve senior managers in investor dialogue; share with management teams

[For investors] What are the main dialogue-related issues for companies? (select up to three)



[For companies/investors] What do you feel are the key issues in making the Boards of Directors more effective? (select up to three)

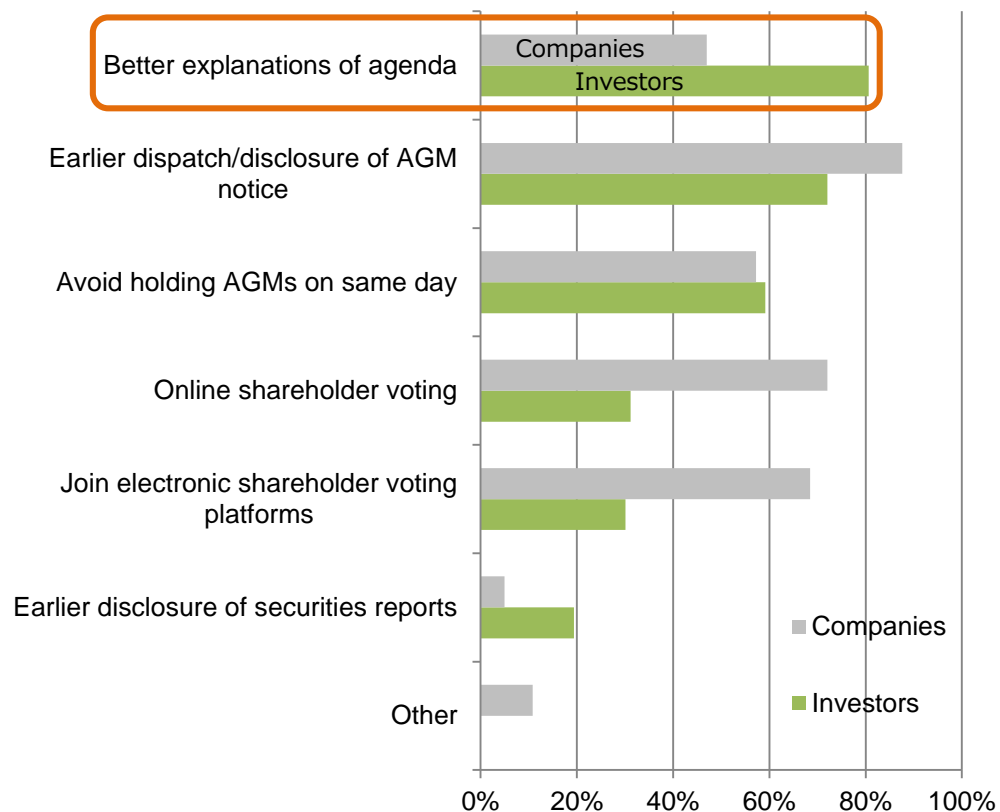


Provide clearer explanations of the proposed agenda for AGMs (dialogue/AGM notice)

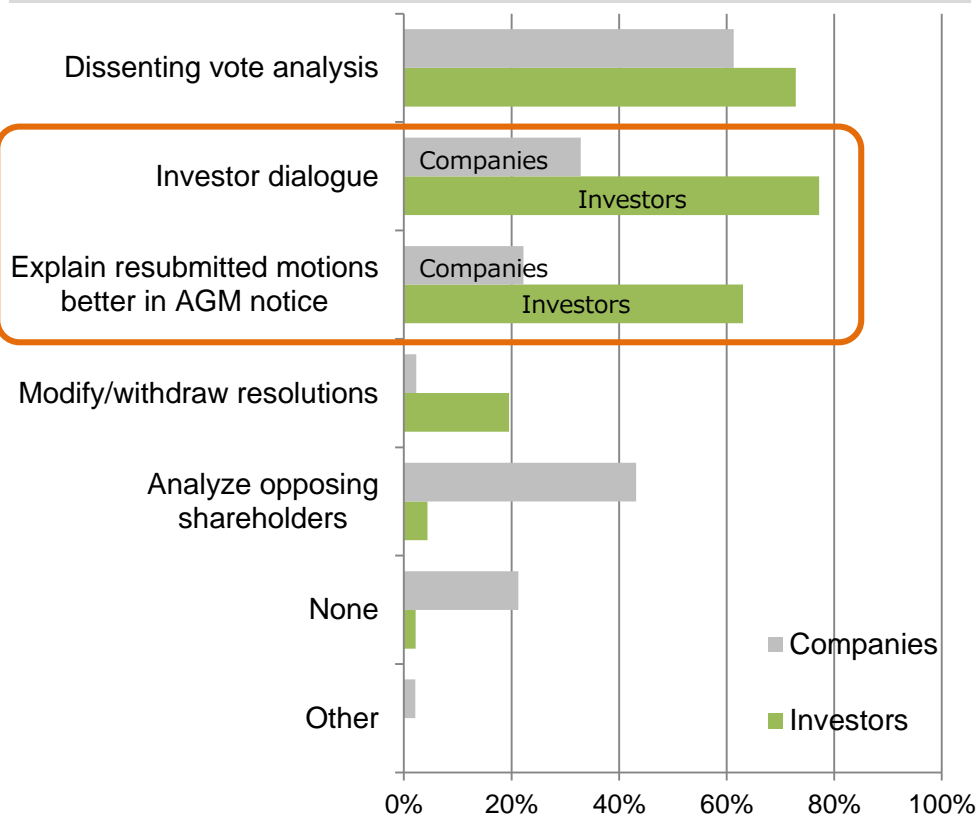
- Investors emphasize the need for companies to improve explanations of AGM proposals as part of enhancing shareholder voting.
- There is a divergence between companies and many investors in terms of the prior resolutions that had substantial opposition, as investors expect further explanation in advance through dialogue and in the convocation notice if the resolution is to be resubmitted.

6 Provide better explanations of proposed agenda via dialogue and AGM notices to enhance voting by shareholders

[For companies/investors] What do companies need to do to enhance shareholder voting? (select multiple)



[For companies/investors] How should firms handle prior resolutions that had opposition? (select three)



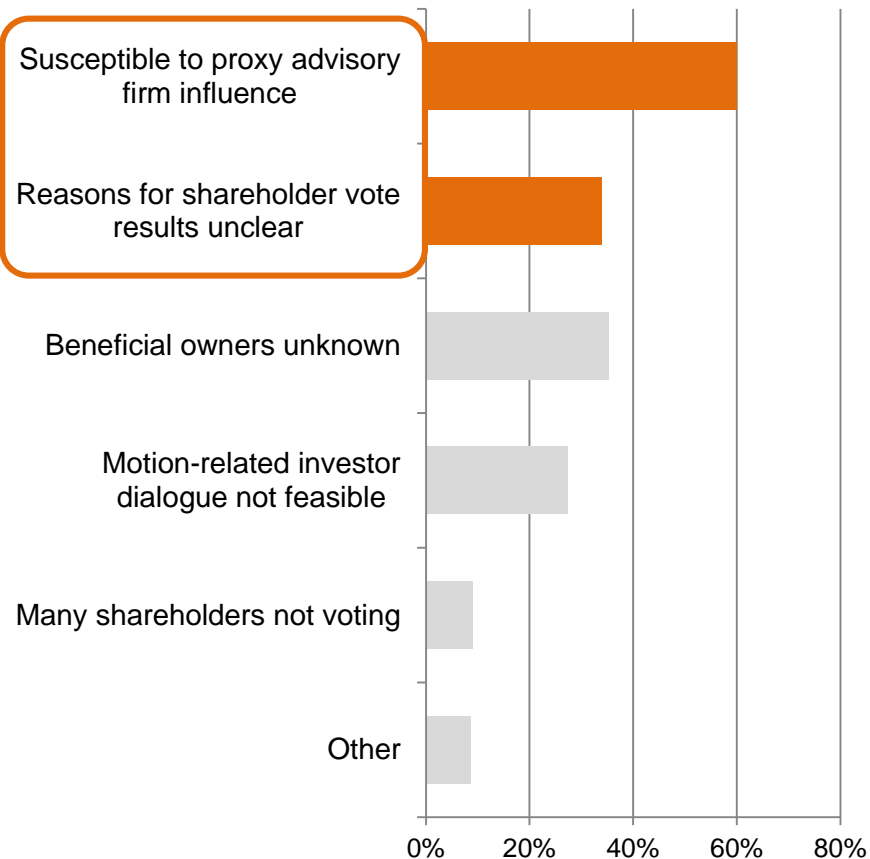
Greater transparency for shareholder voting processes

- Many companies cite investors being overly susceptible to influence of proxy advisory firms or unclear about voting reasons.
- Firms want investors to vote on case-by-case basis, and to provide better explanations for voting decisions plus related criteria.

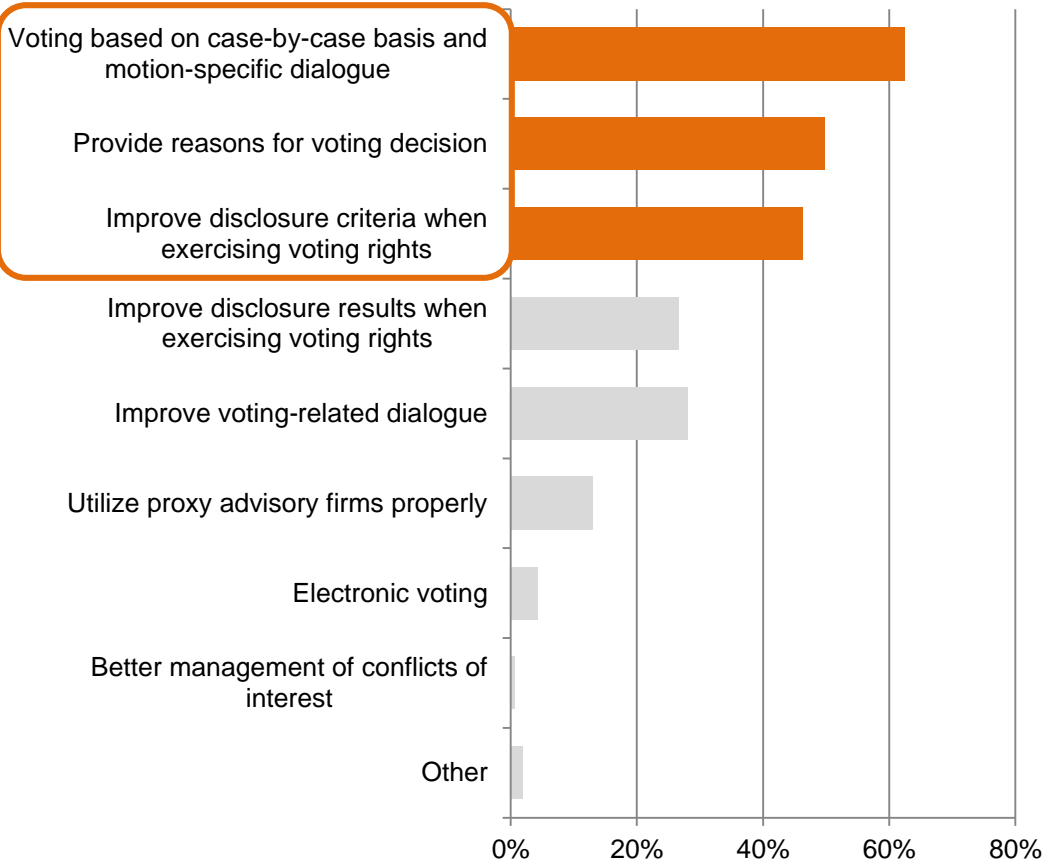
7

Improve transparency for shareholder voting processes,
including voting rationale and explaining voting decisions to companies

[For companies] What are the key issues with execution of shareholder voting? (select three)



[For companies] What do you want from investors on shareholder votes? (select three)



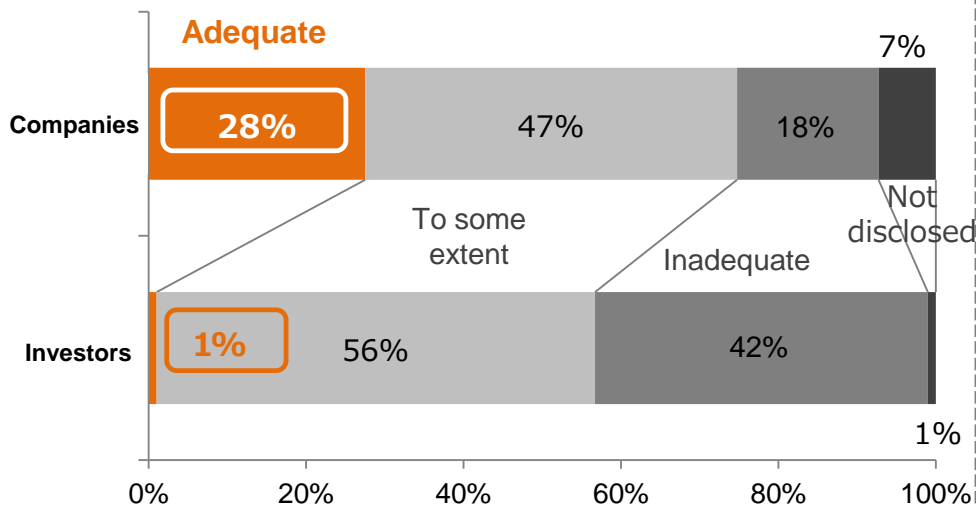
Improving disclosure of ESG initiatives via integrated reporting

- About 30% of firms think integrated reports provide adequate ESG disclosures, but few investors are of the same opinion
- Many firms use their website as the medium for ESG disclosure, whereas investors want publication of an Integrated Report

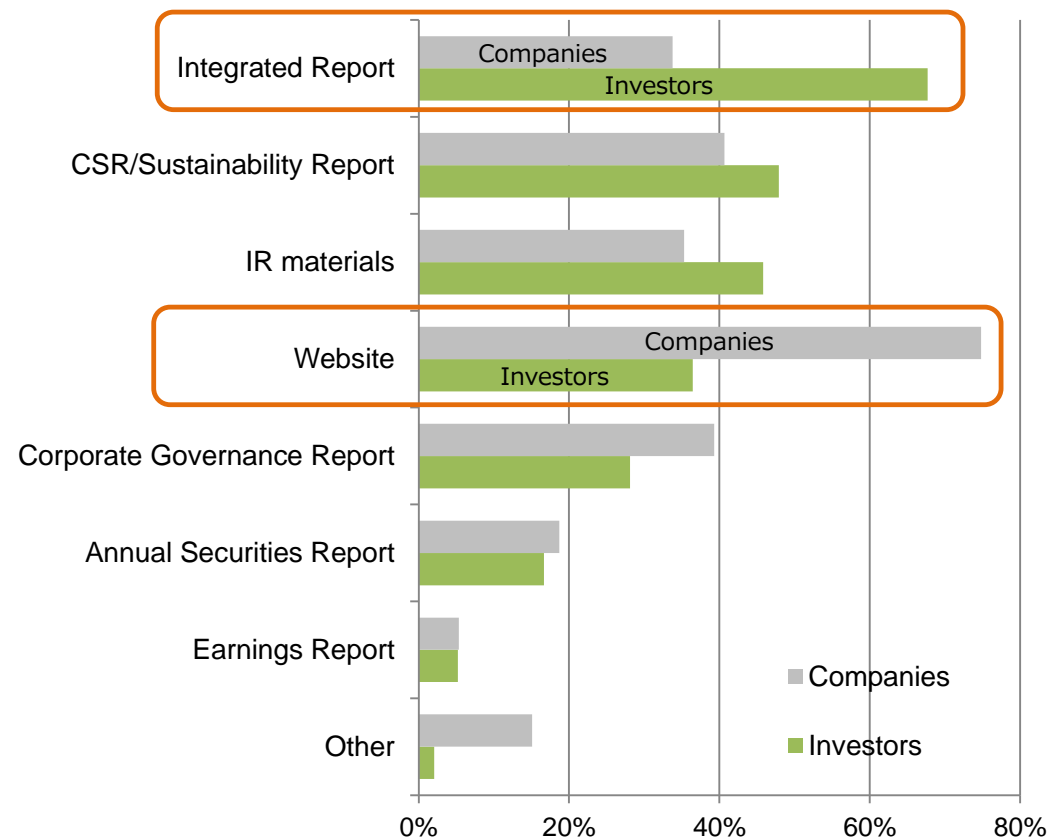
8

Improve ESG disclosure, using integrated reports as well as websites

[For companies/investors] Is the current disclosure of ESG initiatives adequate? (select one)



[For companies/investors] What media are used to disclose ESG initiatives? / Which would you like companies to use? (select up to three)



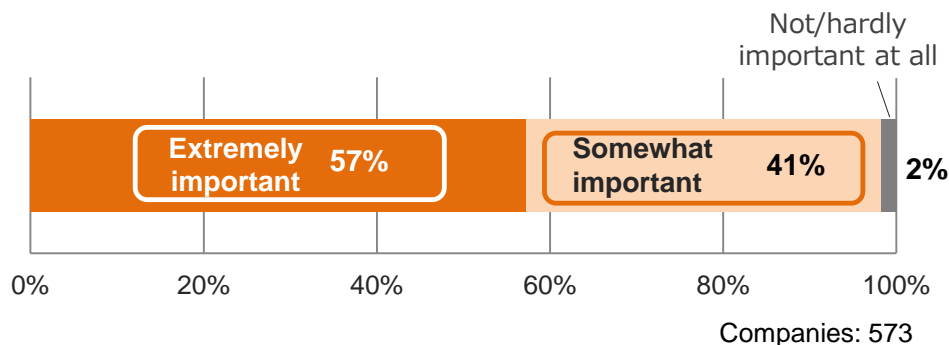
Incorporate ESG initiatives in medium-term management plans

- Although 98% of firms believe ESG initiatives are important for business, only about 40% put such initiatives into medium-term business plans, with many incorporating the initiatives into CSR policies.
- Only 2% of investors view ESG investment in social contribution terms, while 65% want companies to undertake ESG initiatives as a way of increasing corporate value to generate higher investment returns.

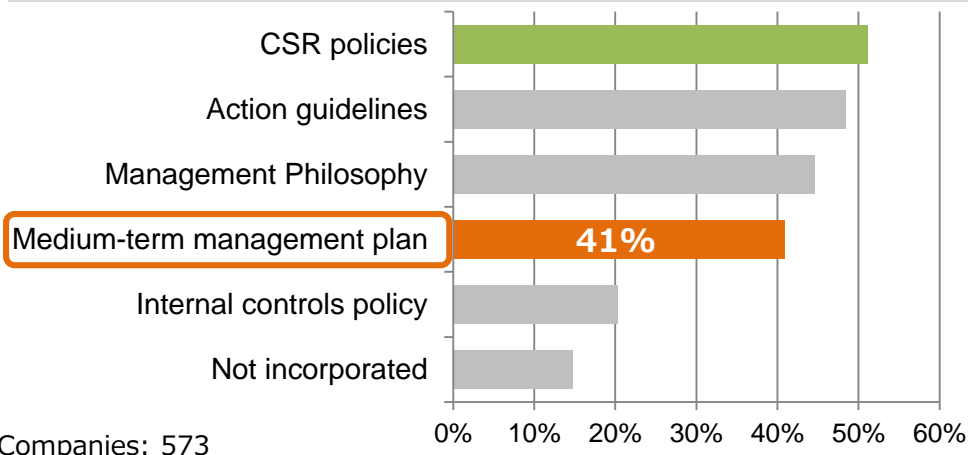
9

Make stronger business-level commitment by including ESG initiatives in medium-term management plans to raise corporate value over longer term

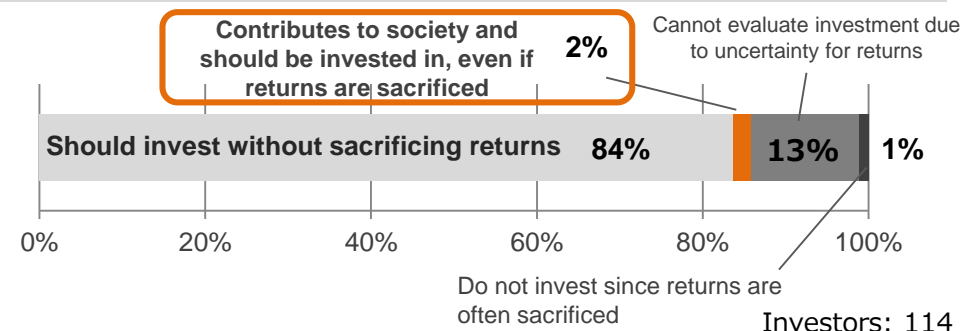
[For companies] Are ESG initiatives important for business? (select one)



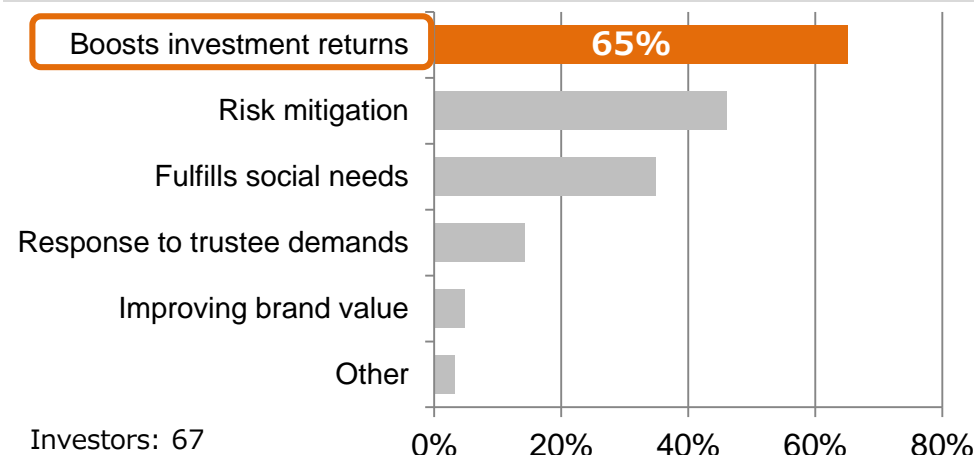
[For companies] Which management policies incorporate ESG initiatives? (select multiple)



[For investors] What is your stance on ESG investment? (select one)



[For investors] What is the purpose of ESG investment? (select up to two)

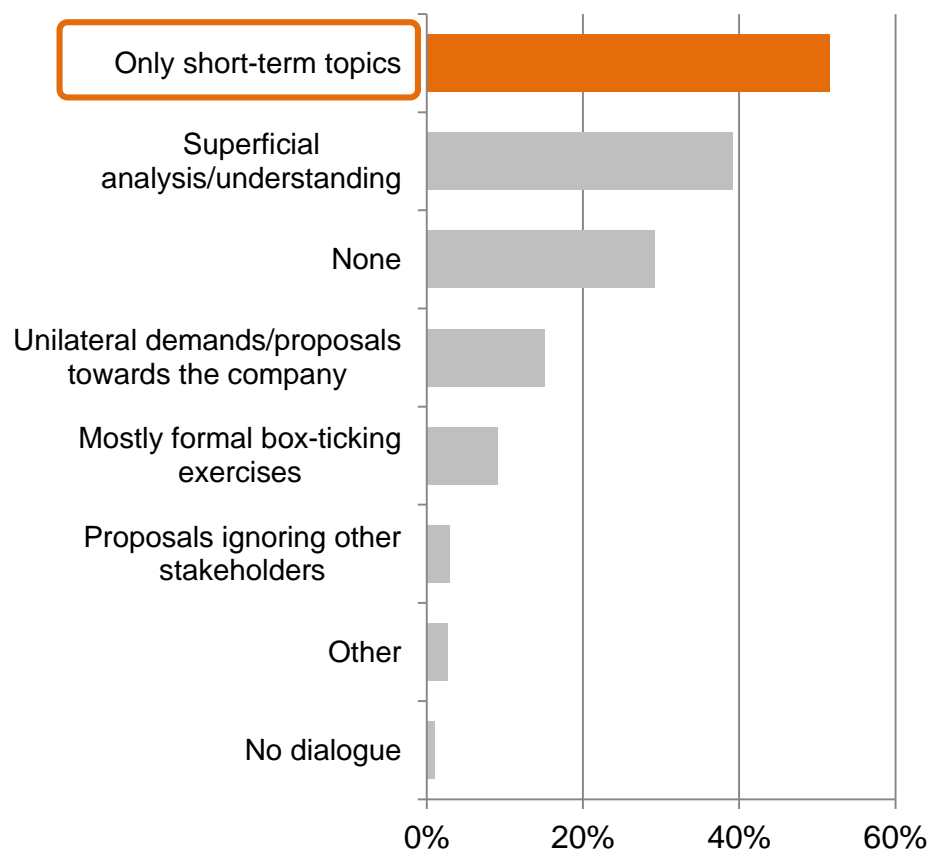


Promote dialogue on addressing ESG issues from medium/long-term perspectives

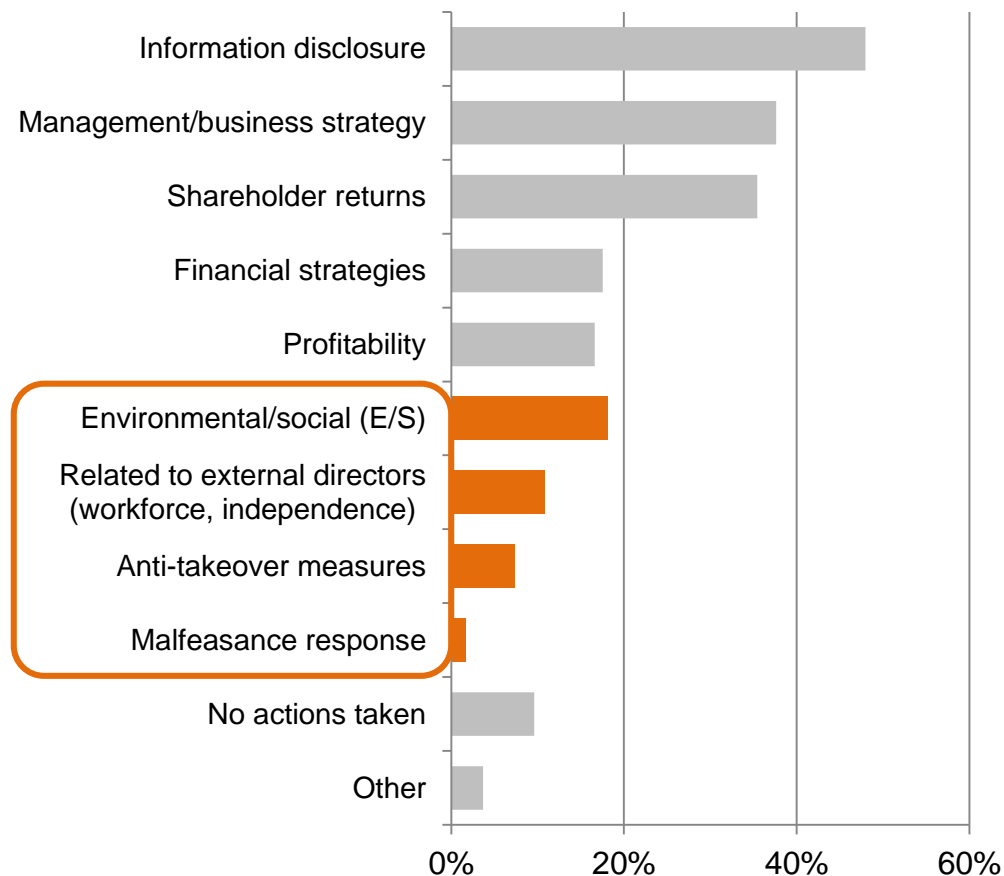
- Roughly half of firms think investors only want dialogue focusing on short-term topics.
- Companies see investor dialogue as an area for improvement when discussing disclosure or business strategy, but not when discussing ESG-related topics with investors.

10 Promote dialogue on addressing ESG issues from medium/long-term perspectives, not short-term topics

[For companies] What issues are discussed during dialogues with investors? (select three)



[For companies] What actions did you take or improve based on the dialogue? (select multiple)

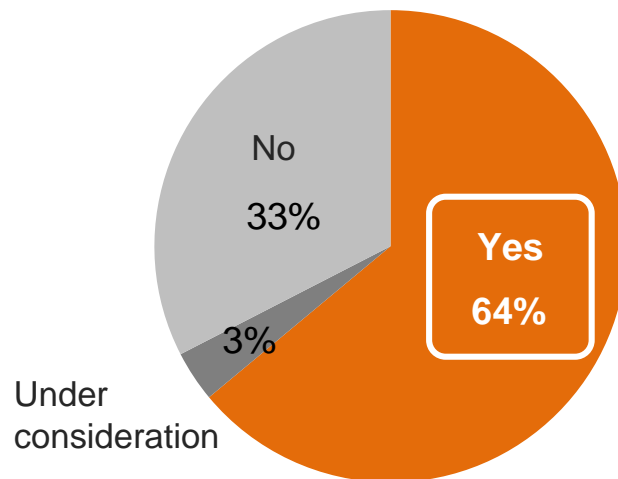


Formulate ESG investment policies

- About 65% of investors are involved in ESG investment, but about 20–38% of those have not formulated those policies and other measures.
- This must be addressed as part of promoting ESG investment, since policy formulation is a minimum requirement for PRI signatories.

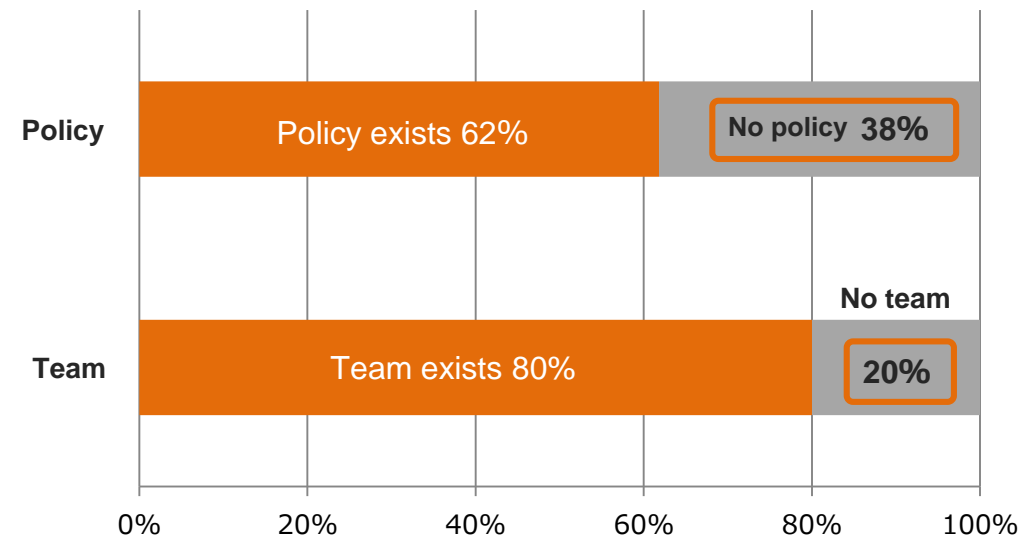
11 Promote ESG investment and upgrade on ongoing basis by formulating related policies and other measures

[For investors] Are you implementing ESG investment?
(select one)



[For investor] Have you formulated an ESG investment policy or established a team to promote it?

*Question directed only to investors involved in ESG investment



Reference: PRI signatory minimum requirements

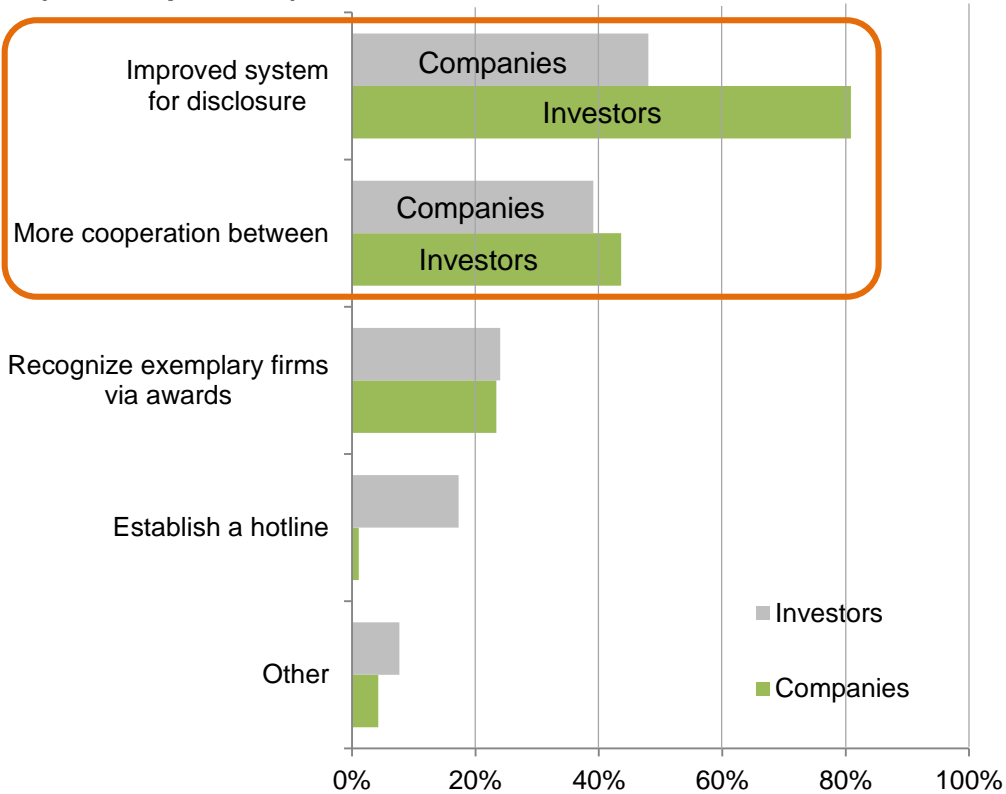
- ESG investment policy in place
- ESG investment manager appointed
- Clear senior management commitment and responsibility to ESG investment

Take steps to promote ESG initiatives across government agencies/departments

- To promote corporate ESG initiatives and investment, both firms and investors want the government to improve the system for disclosures and foster cooperation between government bodies on related policy planning.
- Multiple governmental discussions and guidelines on ESG promotion currently exist at each body.

12 Create cross-sectional policies within the government to promote ESG disclosures and investment

[For investors and companies] What do you want government authorities to do to promote ESG initiatives and investment? (select up to two)



Reference: Government bodies and guidelines in ESG promotion area

Ministries/Agencies	ESG Initiative Promotion Council
Ministry of the Environment	High Level Meeting on ESG Finance
	ESG Finance High-Level Panel
Financial Services Agency	The Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code
Ministry of Economy, Trade, and Industry	Forum for Integrated Corporate Disclosure and ESG Dialogue
	SDG Management/ESG Investment Study Group
	TCFD Study Group
Ministries/Agencies	ESG Initiative Promotion Guidelines
Financial Services Agency	Guidelines for Dialogue Between Investors and Companies
Ministry of Economy, Trade, and Industry	Guidance for Collaborative Value Creation
	TCFD Guidance

Measures to support promoting issuance of green bonds, etc.

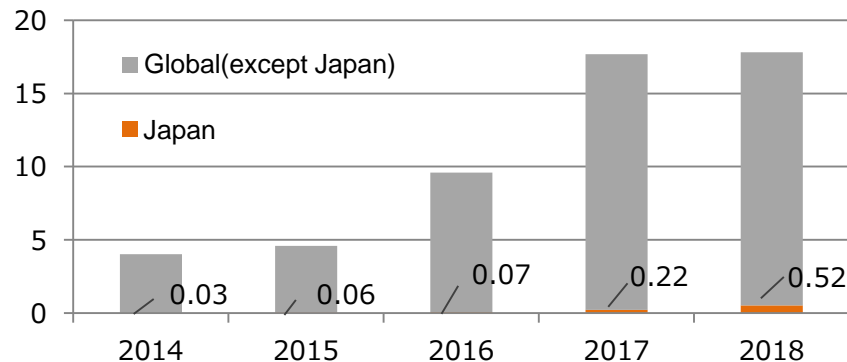
- Annual investment of ¥1.5 trillion* is needed globally to achieve the Paris Agreement 2030 targets; the Japanese market for green bonds remains small despite government efforts to promote it. (*UNFCCC estimate)
- To promote issuance of green bonds, etc.*, many firms and investors believe action is needed to build trust and awareness in the system, with financial incentives such as preferential tax treatment or interest subsidies available. (*JSDA uses the term 'SDG bonds' to include green bonds and social bonds)

13

Prepare tax policies and build market awareness to promote issuance of green bonds, etc.

Reference: Total green bond issuance

(Trillions of yen)



Source: The Green Bond Issuance Promotion Platform

Note: Conversion at US\$1 = ¥110

Reference: Government actions to promote green bonds

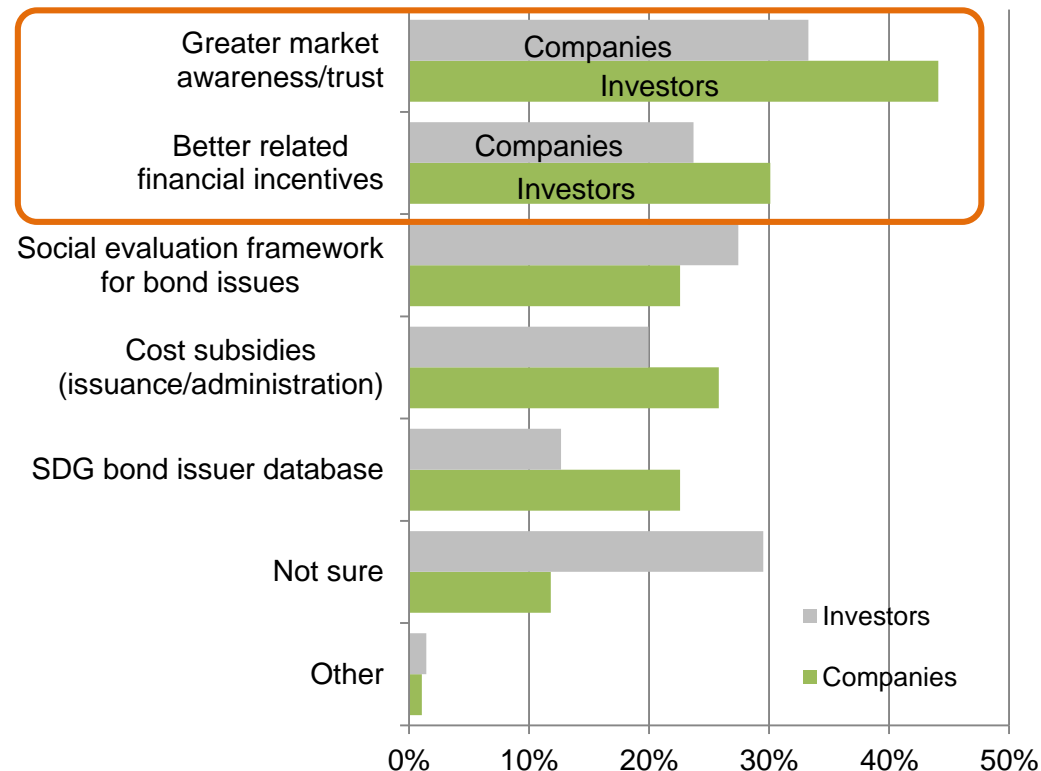
Green Bond Guidelines (Mar. 2017)

Requirements for green bond issuance (how to manage funds raised, secure external review, etc.)

Support structure for green bond issuance

Issuance subsidies for green bond issuers (for external review/consulting costs, etc.)

[For companies/investors] What is necessary to promote issuance of green bonds and social bonds? (select up to two)



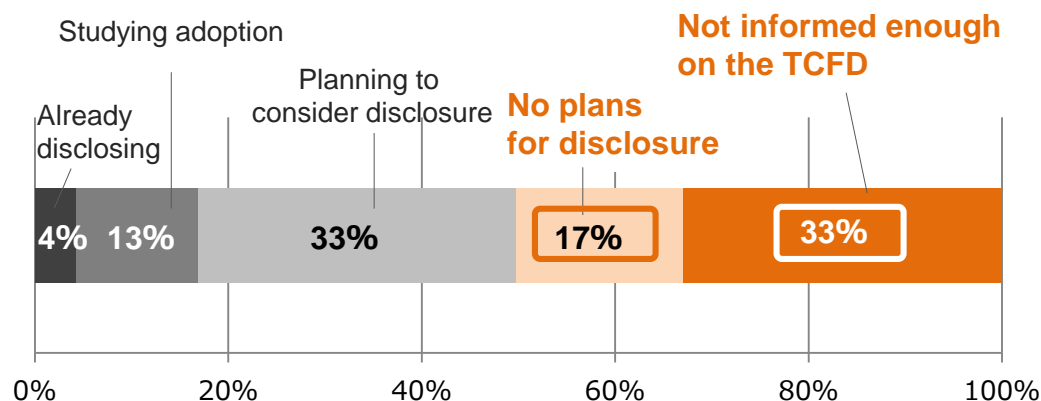
Set policies to promote understanding of need for climate change-related disclosures

- Climate change is a critical issue requiring a response from all of society, as shown by the Paris Agreement and international debate.
- The Taskforce on Climate-related Financial Disclosures (TCFD) recommends disclosure of information related to climate change, and the Japanese government fully supports the taskforce's efforts.
- Yet about 30% of firms and investors do not know much about the TCFD, and there are still many instances of companies and investors making few or no climate-related disclosures.

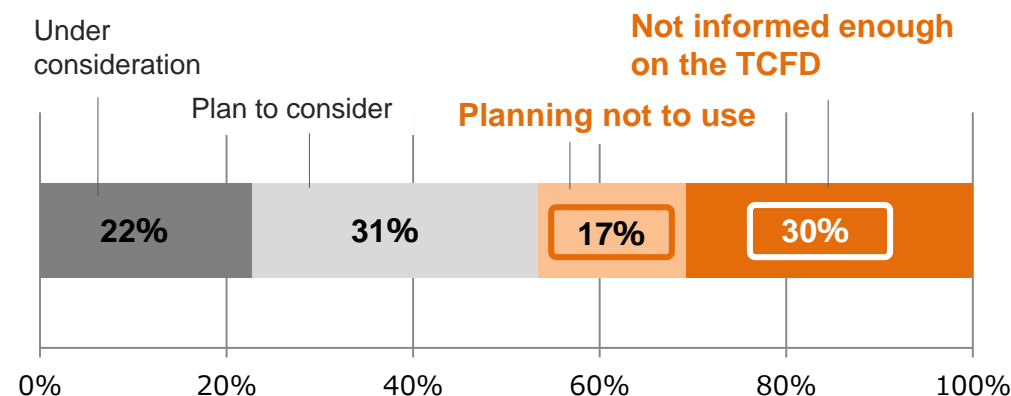
14

Share best practice and set policy to promote understanding of climate-related disclosures

[For companies] Are you considering TCFD-style climate-related disclosures? (select one)



[For investors] Are you considering using TCFD-style climate-related disclosures in the evaluation of firms or for dialogue? (select one)



Reference: Paris Agreement

- An international framework adopted in Dec. 2015 for action on climate change with aim of restricting global warming to no more than 2°C relative to pre-industrial levels

Reference: Taskforce on Climate-related Financial Disclosures (TCFD)

- Taskforce set up under Financial Stability Board (FSB) in response to request from G20 finance ministers and central bank governors
- Issued recommendations in Jun. 2017 on corporate disclosure of financial risks and opportunities relating to climate change