

LIAJ initiatives in FY2023

- Working groups on stewardship activities and ESG investment and finance were set up to contribute to equity market reinvigoration and achieving a sustainable society. Continued to publish the LIAJ recommendations (this report) and implement collaborative engagement through both working groups in FY2023.
- In addition, LIAJ implemented measures to refine and raise the sophistication of activities at each LIAJ member firm. Measures included holding joint working group (WG) seminars with Environment (E) and Society (S) themes, such as “Addressing climate change,” “Human capital” and “Human rights.”
- LIAJ believes that when companies and shareholders engage in a constructive dialogue and share a mutual awareness of issues, companies will be encouraged to take steps to increase shareholder value over the medium and long terms. Based on this belief, LIAJ hopes that this report will help to increase shareholder value over the medium and long terms, leading to reinvigoration of the stock market as a whole.

Equity market reinvigoration/Achieving a sustainable society

2017~

Collaborative engagement

Improving shareholder returns

Improving ESG disclosure

Improving climate change disclosures

1974~

LIAJ recommendations

Based on surveys of companies/investors

Upgraded initiatives and approaches of WG participants

Stewardship Activities WG
(11 life insurers)



ESG Investment and Finance WG
(20 life insurers)

FY2023 policy recommendations

- Tokyo Stock Exchange, Inc. issued a request for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” in March 2023, and there was a growing societal need for companies to take action to implement management that is conscious of cost of capital and stock price, as well as engage with investors through dialogue and disclosure. Meanwhile, the survey of companies and investors carried out in FY2023 found that there remains a large gap in perception between companies and investors on topics concerning management goals/financial strategies.
- The number of companies citing respect for human rights as a major theme in ESG activities increased in the survey.
- Based on the aforementioned factors, recommendations on management goals/financial strategies, enhancing dialogue, and promoting ESG initiatives were partially revised or added.

	Recommendations	Target		Recommendations	Target	
Management goals / financial strategies	① Provide investors with thorough explanations of financial and capital strategies, including shareholder returns, and raise shareholder returns over the medium and long terms (dividend payout ratios of at least 30%) Revised	Companies	Promoting ESG initiatives	⑧ Provide further disclosure of non-financial information, including ESG, through integrated reports and other means	Companies	
	② Set ROE targets based on analysis and evaluation of the cost of capital and balance sheet profitability and target higher ROE levels Revised			⑨ Formulate and implement medium-term management plans to realize sustained growth, including ESG initiatives Revised		
Improving corporate governance	③ Improve disclosures about expectations of external directors’ roles and their performance			⑩ Promote initiatives to foster respect for human rights New		
	Enhancing dialogue			④ Improve disclosure/dialogue on medium- and long-term investment strategy, including investments in human capital and intellectual property linked to management strategy		⑪ Appropriately disclose climate change-related information and consider formulating and disclosing greenhouse gas reduction targets and roadmaps Revised
⑤ Encourage involvement of top management in dialogue				⑫ Appropriately use climate change-related information and consider formulating and disclosing greenhouse gas reduction targets Revised		Investors
⑥ Promote dialogue based on in-depth understanding of companies and dialogue from a medium- and long-term perspective that contributes to the solution of issues facing companies		⑬ Take steps to promote ESG initiatives across government ministries/agencies		Government		
Shareholder voting	⑦ Facilitate mutual understanding of AGM proposals and shareholder voting through dialogue Combined Revised	Companies		⑬ Further enhance policy-based support to realize carbon neutrality		

Survey on initiatives to enhance corporate value

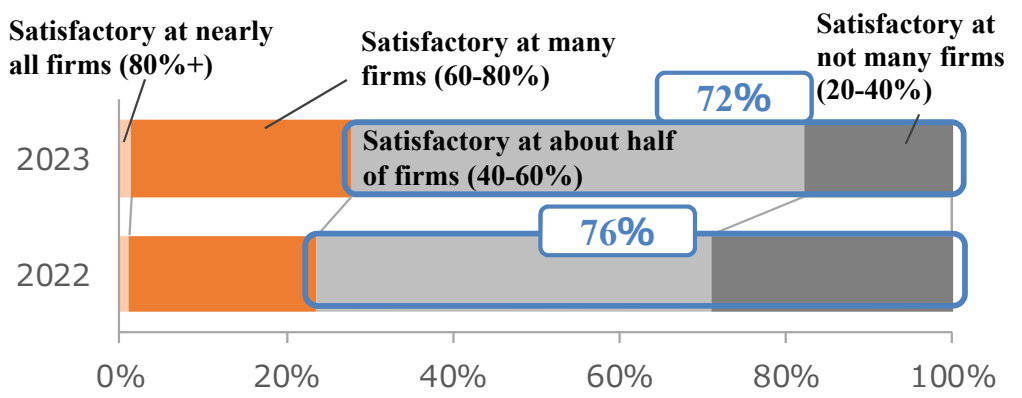
<Purpose> To implement recommendations for equity market reinvigoration and achieving a sustainable society based on results of surveys on initiatives and awareness of companies/investors
 <Survey targets and response rate> Listed companies 38% (453/1,200 companies); investors 44% (88/200 companies)

Recommendation (1): Provide investors with thorough explanations of financial and capital strategies, including shareholder returns, and raise shareholder returns over the medium and long terms (dividend payout ratios of at least 30%)

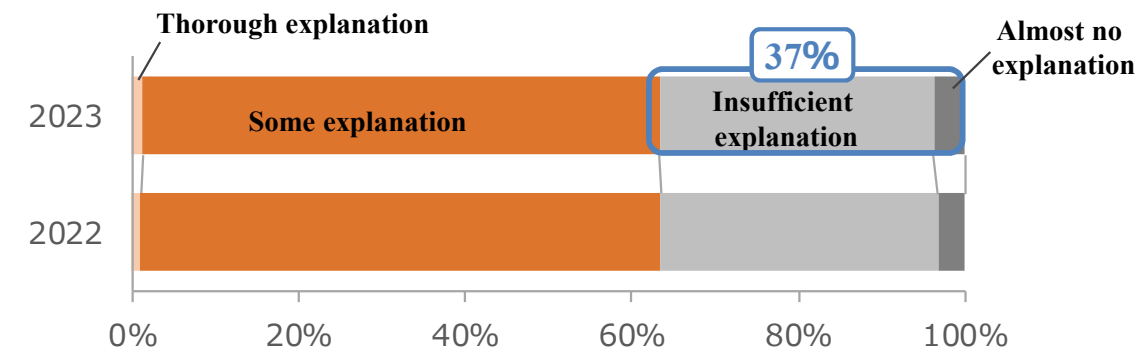
- 72% of investors are not fully satisfied with the level of shareholder returns and dividends. (Figure 1)
- 66% of investors expect firms to offer dividend payout ratios of at least 30% over the medium and long term. However, the actual dividend payout ratios were under 30% for 41% of all firms. (Figure 2, Reference).
- More than 60% of investors said that they received some explanation in terms of capital efficiency and the need for internal reserves and investment, while more than 30% of investors reported that these explanations were insufficient. (Figure 3)

⇒ Raise shareholder returns over the medium and long terms, targeting a payout ratio of at least 30%, after gauging investor expectations by providing them with thorough explanations of financial and capital strategies, including shareholder returns

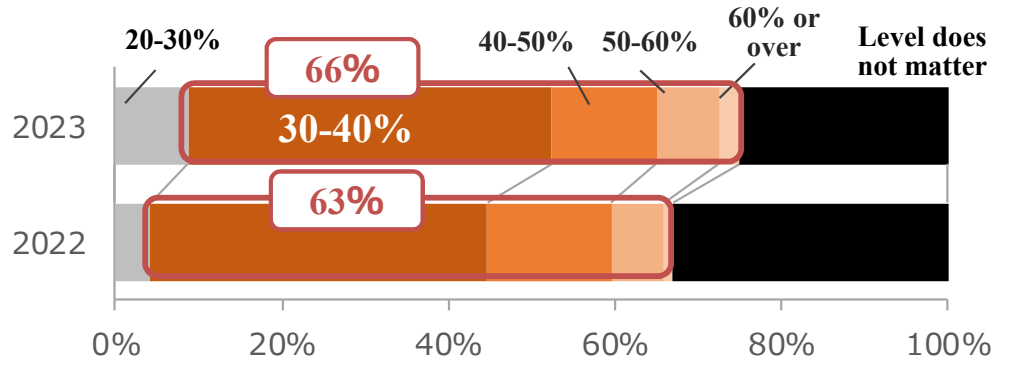
(Figure 1) 【For investors】 Satisfaction level for shareholder returns and dividends



(Figure 3) 【For investors】 Explanations in terms of capital efficiency and the need for internal reserves and investment

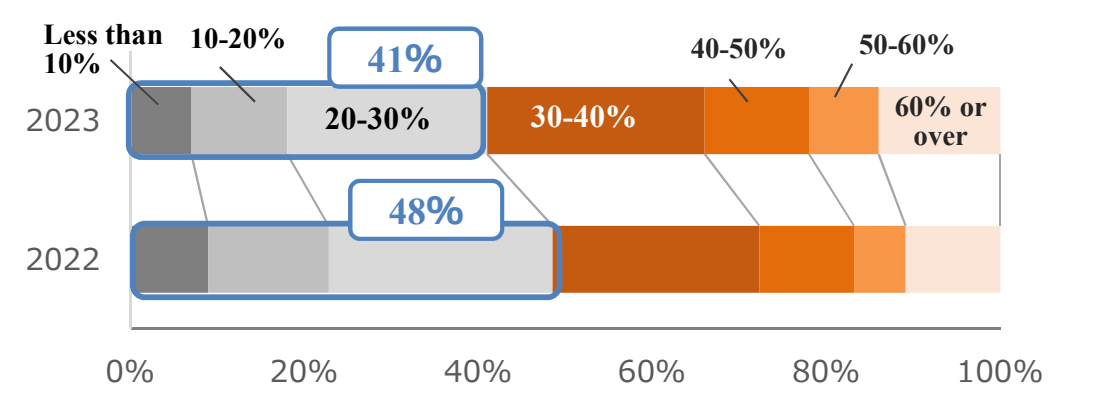


(Figure 2) 【For investors】 Desired medium- and long-term level of dividend payout ratios



Note: Percentage figures are rounded to the nearest percent, so they will not necessarily sum to 100. The same applies hereafter

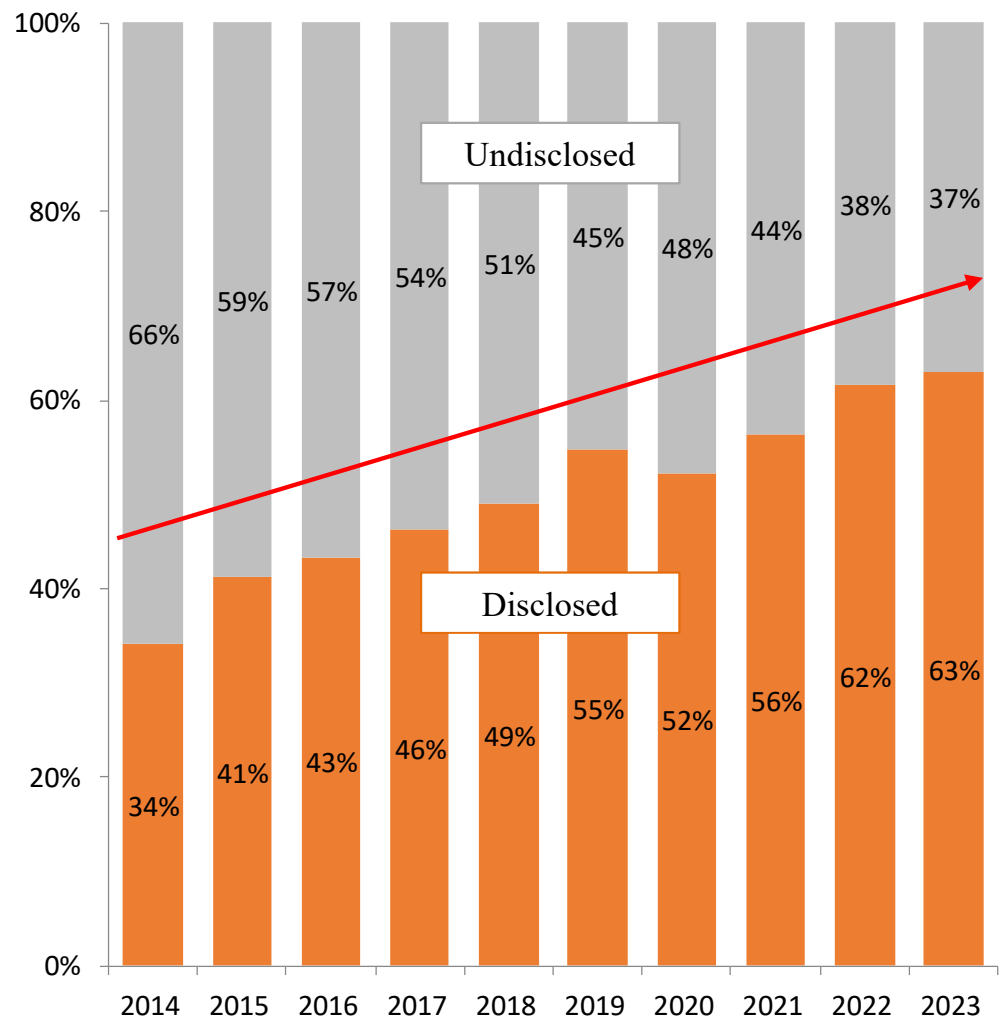
Reference: Distribution of payout ratio for listed companies (actual)



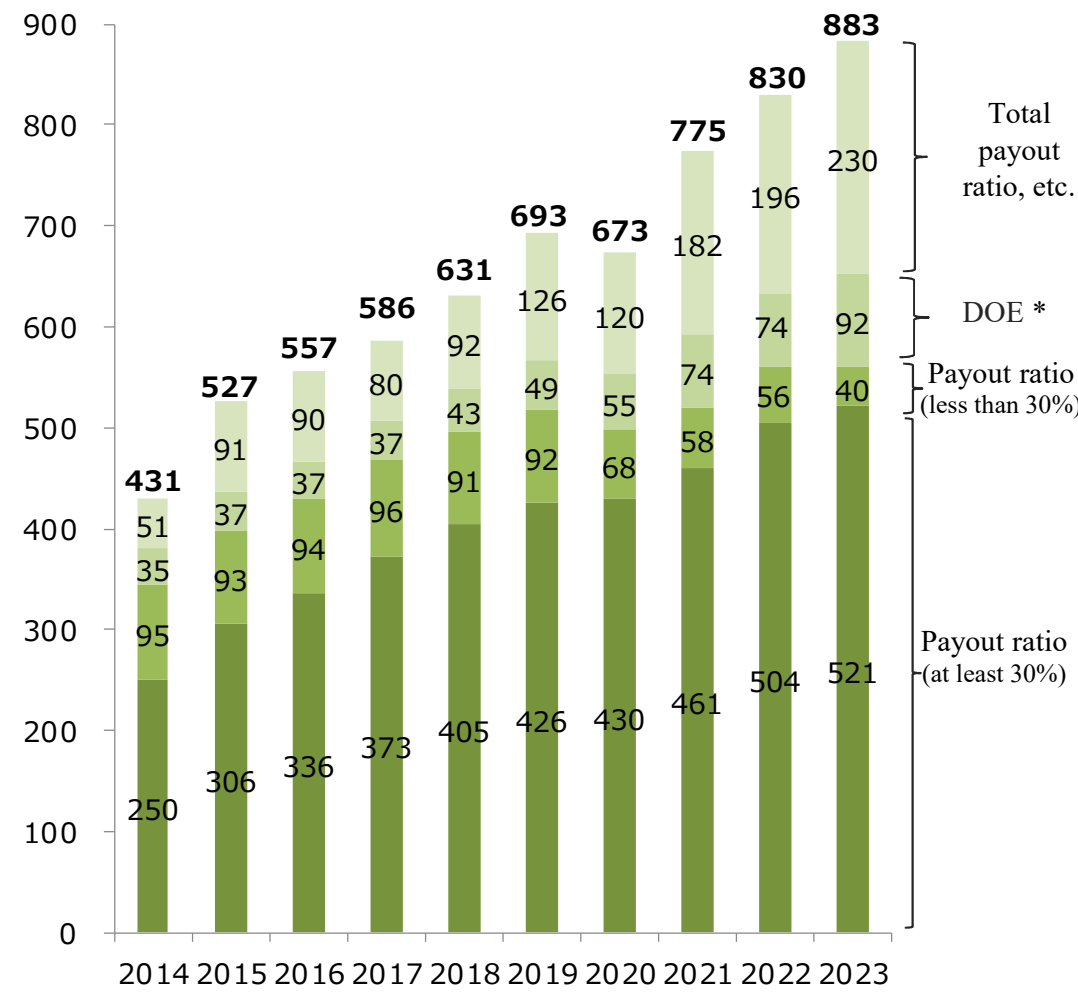
Source: Nikkei QUICK Note: TOPIX components (excluding unprofitable firms)

(Reference) Disclosure of numerical shareholder return (SR) targets

Proportion of firms with official SR targets



Number of firms disclosing numerical SR targets by target type



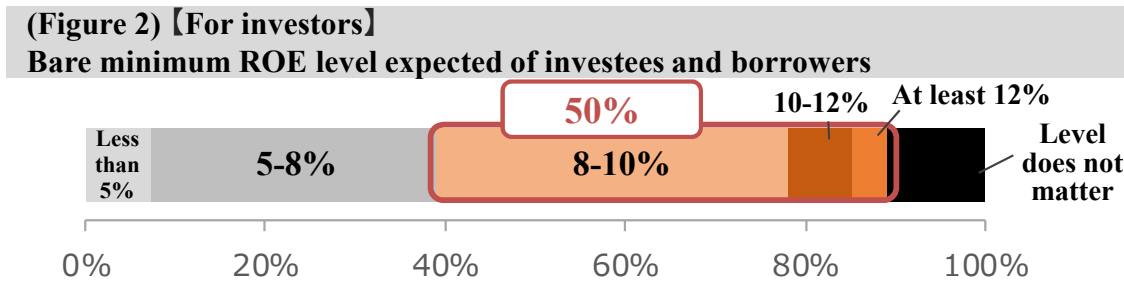
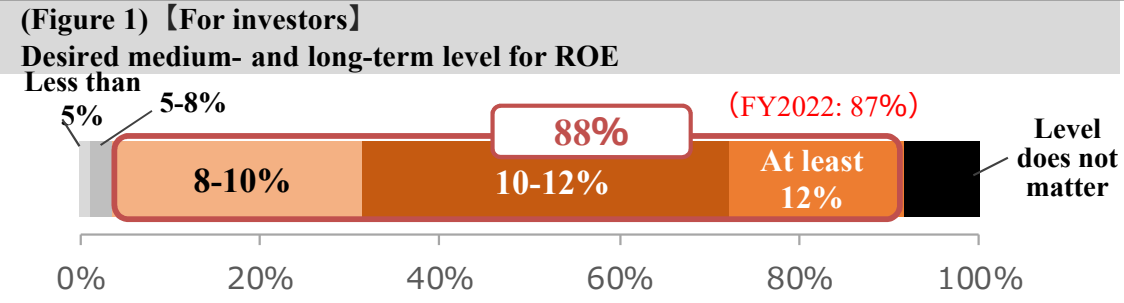
Source: LIAJ research
Based on survey of top 1,200 listed stocks by market capitalization

Source: LIAJ research
Based on survey of top 1,200 listed stocks by market capitalization
Note: Firms with multiple SR targets are counted for each target
* DOE: dividend-on-equity ratio

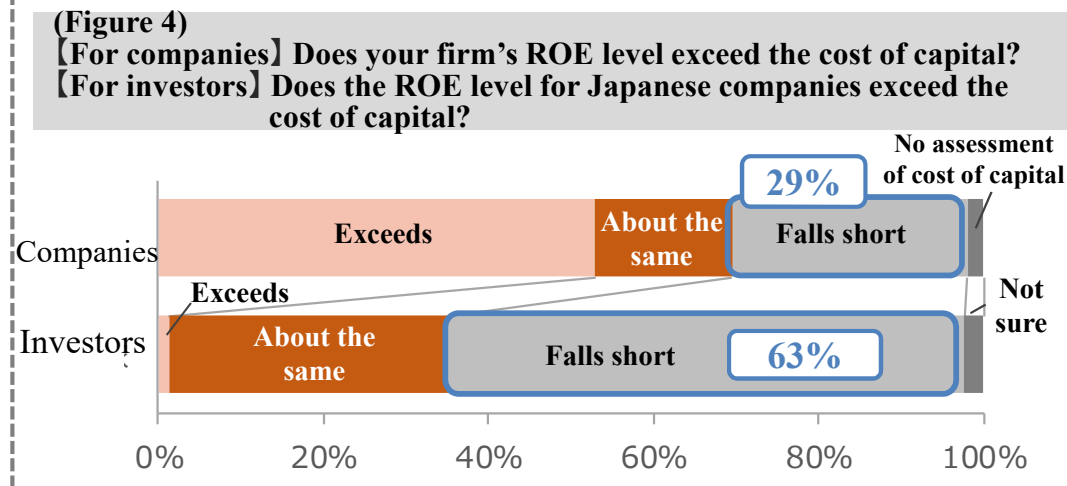
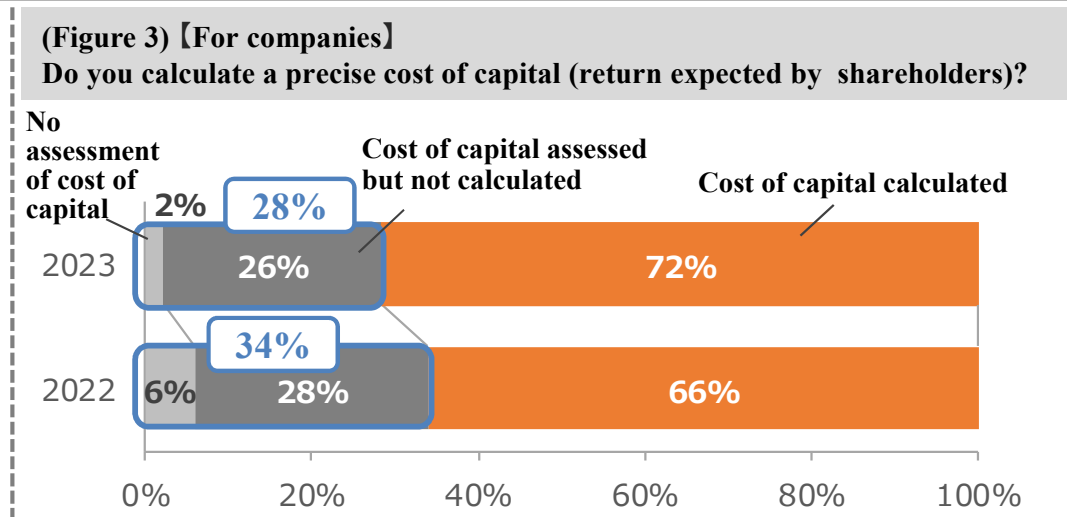
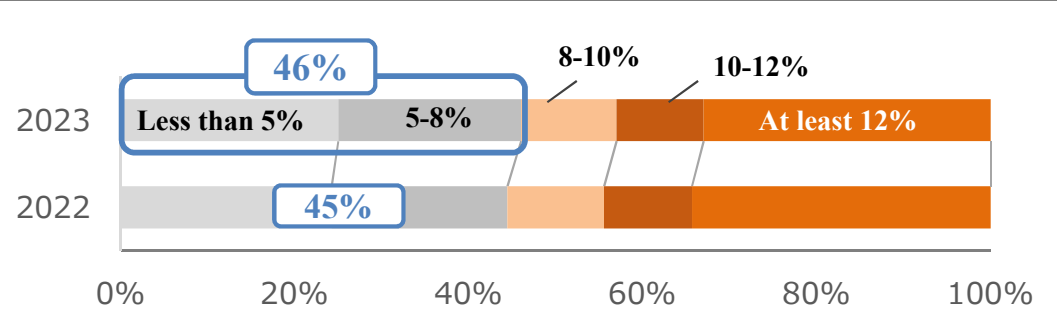
Recommendation (2): Set ROE targets based on analysis and evaluation of the cost of capital and balance sheet profitability and target higher ROE levels

- 88% of investors expect an ROE level of at least 8% over the medium and long term, and half of them expect a bare minimum ROE level of at least 8% from investees and borrowers. However, ROE remains under 8% at 46% of listed firms. (Figures 1 and 2, Reference)
- The ratio of firms that have not calculated their cost of capital (return expected by shareholders) was 28%, indicating no major change from the previous fiscal year. (Figure 3) In terms of the level of ROE relative to the cost of capital, 63% of investors believe that ROE is lower than the cost of capital, signifying a large gap in perception between investors and firms. (Figure 4)

⇒ Set ROE targets based on analysis and evaluation of the cost of capital and balance sheet profitability, eyeing medium- and long-term improvement in ROE



Reference: Distribution of payout ratio for listed companies (actual)



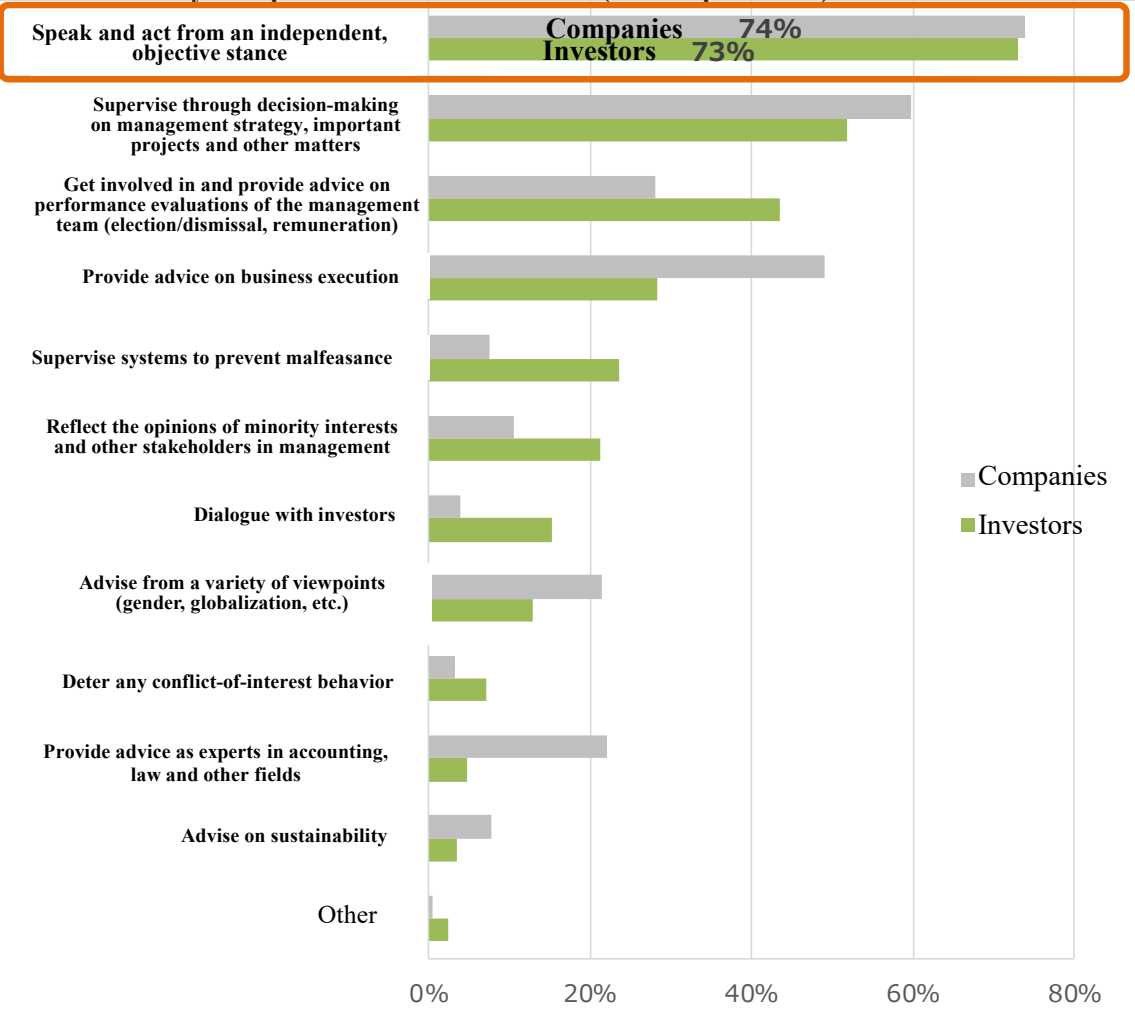
Source: Nikkei QUICK
Note: All listed firms (excluding unprofitable firms and the financial sector)

Recommendation (3): Improve disclosures about expectations of external directors' roles and their performance

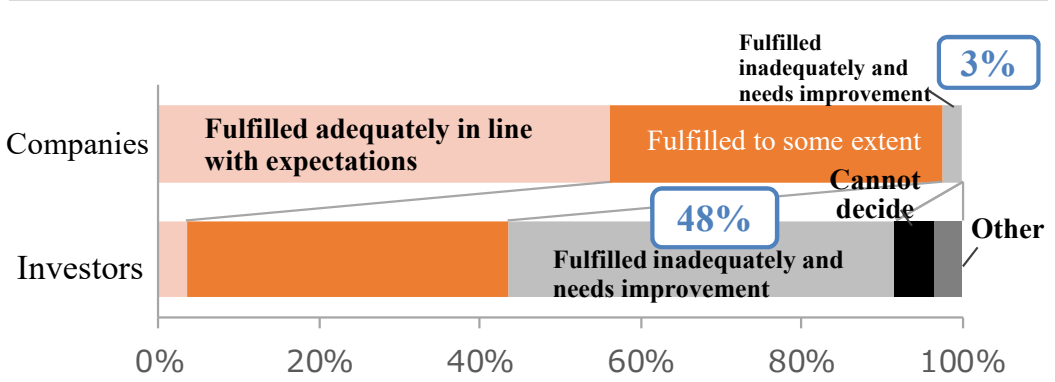
- In terms of the roles expected of external directors, companies and investors both put the strongest emphasis on external directors' ability to "Speak and act from an independent, objective stance." (Figure 1)
- Regarding the fulfillment of roles by external directors, a majority of companies responded that the "role is being fulfilled," while roughly half of investors responded with "fulfilled inadequately and needs improvement," showing a gap in perception between companies and investors. (Figure 2)
- Roughly half of investors believe that companies' explanations and disclosures are inadequate for monitoring and evaluating the roles, performance, and other aspects of external directors. (Figure 3)

⇒ Improve companies' disclosures about investors' expectations of the roles and performance of external directors, and explain these matters to investors via respectful dialogue

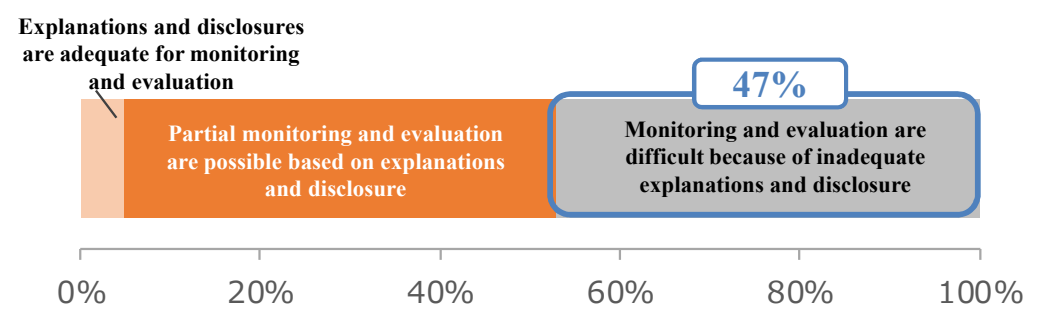
(Figure 1) [For companies/investors]
What roles do you expect of external directors? (select up to three)



(Figure 2) [For companies/investors]
Are external directors sufficiently fulfilling the roles that are expected of them?



(Figure 2) [For investors]
Do companies provide adequate explanations and disclosure for monitoring and evaluating the roles, performance, and other aspects of external directors?

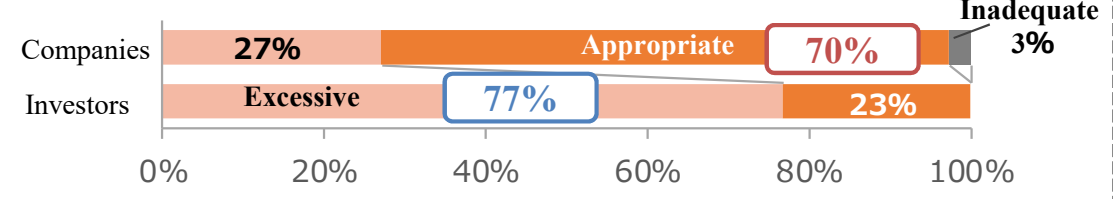


Recommendation (4): Improve disclosure/dialogue on medium- and long-term investment strategy, including investments in human capital and intellectual property linked to management strategy

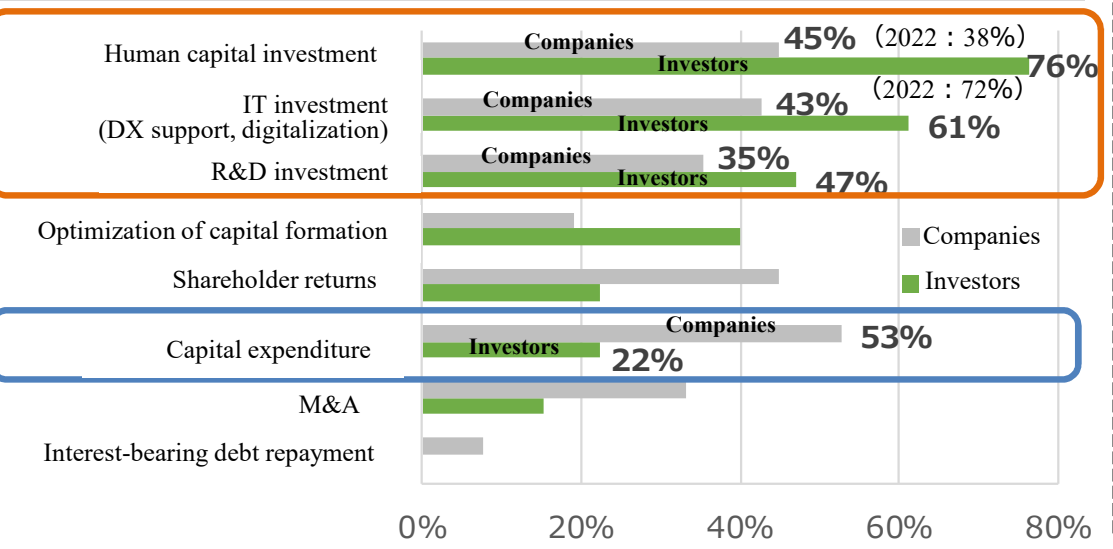
- 70% of companies believe the levels of cash balances are appropriate. Meanwhile, 77% of investors see current levels of cash balances as excessive, which continues the historical gap in perception between investors and companies. (Figure 1)
- In their medium- and long-term investment/financial strategies, companies see capex as vital, while investors put most emphasis on investments in human capital, and emphasized intangibles such as IT (DX support, digitalization) and R&D. (Figure 2)
- Companies and investors are both emphasizing “initiatives linking management strategies and human resource strategies” toward realizing the human capital management the Japanese government is promoting. (Figure 3)

⇒ Target appropriate cash levels, and improve disclosure/dialogue related to medium- and long-term investment strategy, including human capital and intellectual property linked to management strategy

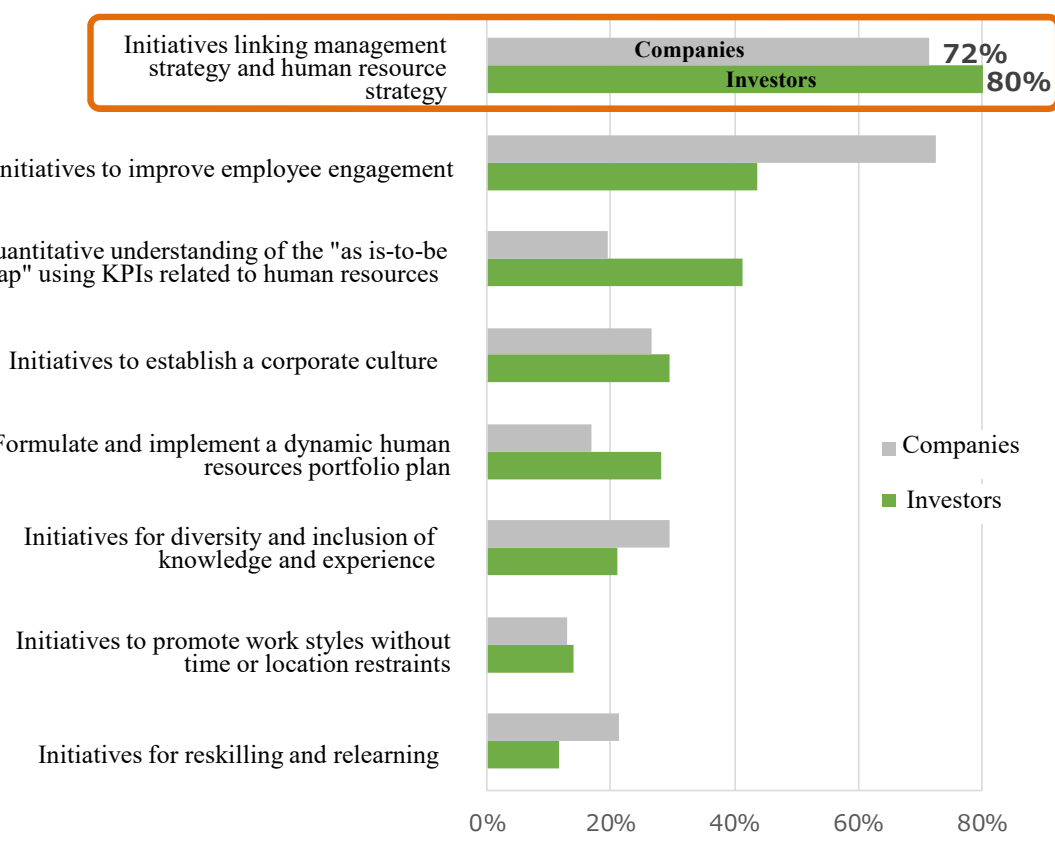
(Figure 1) [For companies/investors]
How do you see current levels of cash holdings?



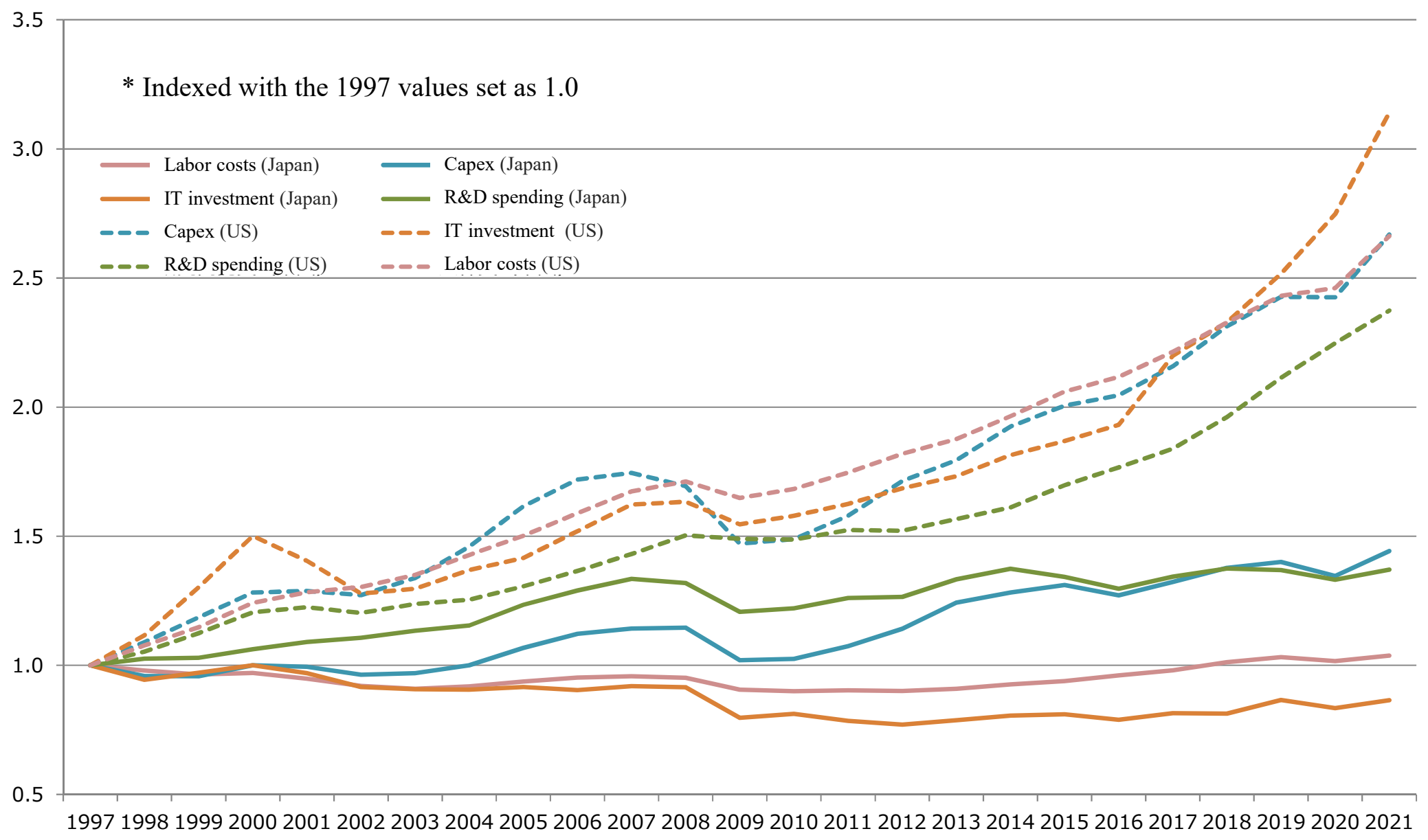
(Figure 2) [For companies/investors] (select up to three)
What do you think are important matters to consider, or should be considered, in your medium- and long-term investment/financial strategies?



(Figure 3) [For companies/investors] (select up to three)
What do you think should be emphasized to achieve human capital management?



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



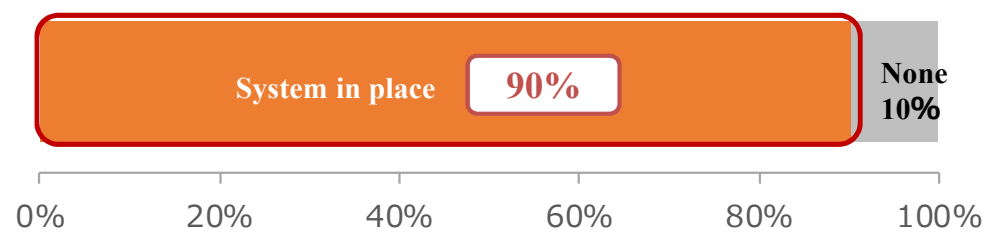
Sources: OECD statistics, data from the Cabinet Office, and Ministry of Internal Affairs and Communications of Japan, and the U.S. Department of Commerce

Recommendation (5): Encourage involvement of top management in dialogue

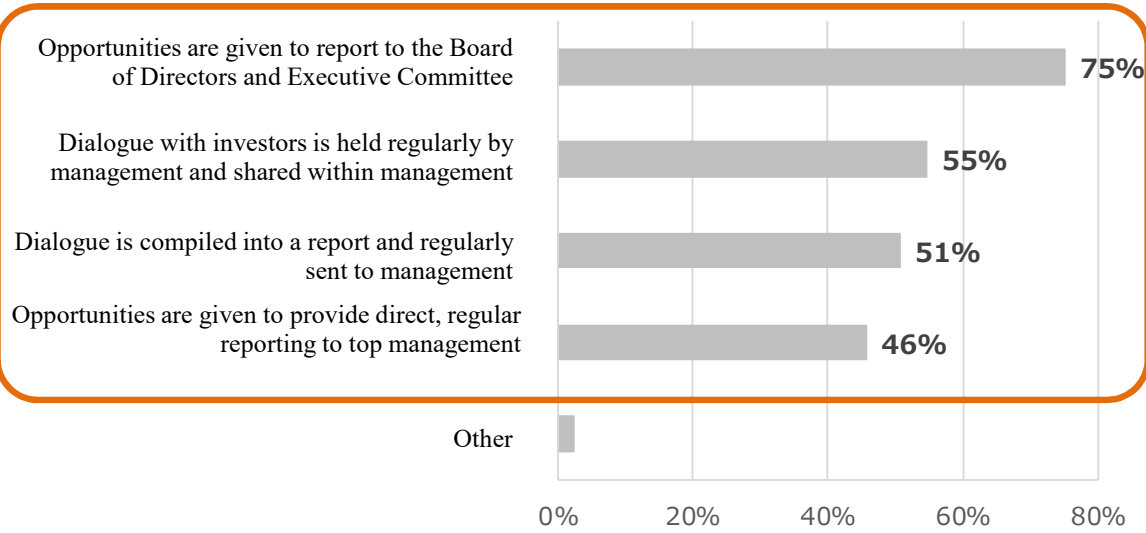
- 90% of companies have systems in place to share dialogue content with management, but investors feel that “dialogue content does not reach management” and there is “non-participation by management, including senior managers.” (Figures 1, 2, and 3)

⇒ Actively involve management in dialogue and provide investors with feedback on the results of sharing dialogue within management

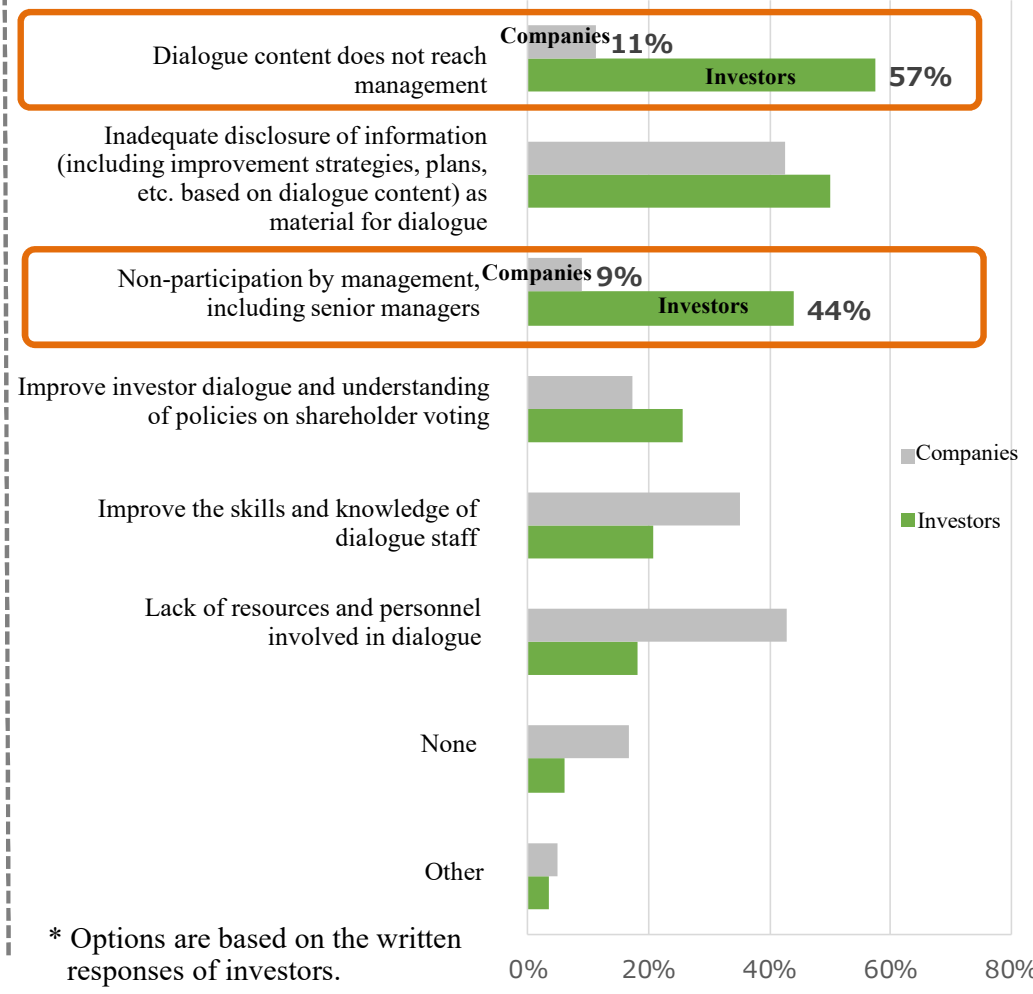
(Figure 1) [For companies]
Do you have a system in place to share dialogue content with management?



(Figure 2) [For companies] (Select multiple)
System for sharing dialogue content with management, if such a system is in place



(Figure 3) [For companies/investors] (select up to three)
What are the main dialogue-related issues regarding the systems and measures of your company / the systems and measures for companies?



* Options are based on the written responses of investors.

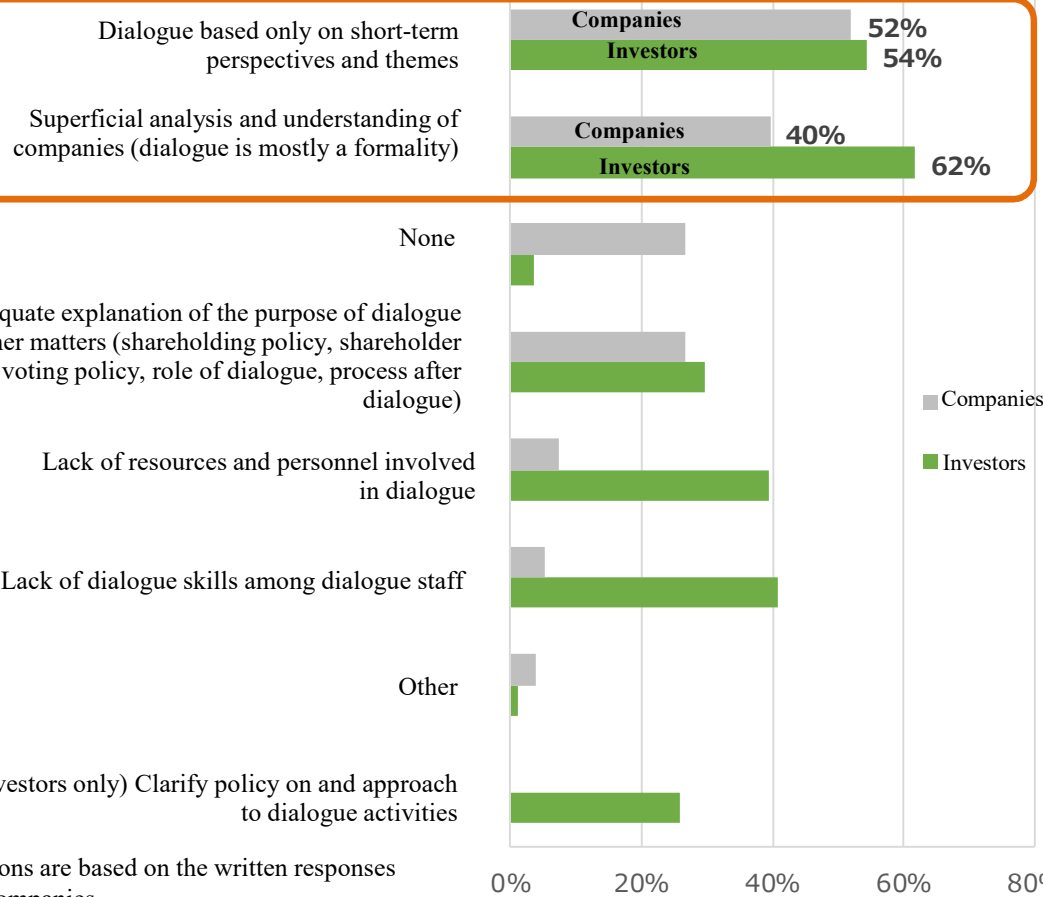
Recommendation (6): Promote dialogue based on in-depth understanding of companies and dialogue from a medium- and long-term perspective that contributes to the solution of issues facing companies

- Both companies and investors feel that the key dialogue-related issues are that dialogue is based on a short-term perspective and there is only a superficial analysis and understanding of companies. (Figure 1)
- Looking at discussion themes for which companies took action based on dialogue, themes such as information disclosure, sustainability (initiatives for environmental and social issues), and shareholder returns accounted for large shares of the responses. However, financial strategy and profitability represented only around 30% of the responses, indicating that some items have not yet led to specific actions. (Figure 2)

⇒ Promote dialogue from medium and long-term perspectives that will benefit companies, based on in-depth understanding of companies

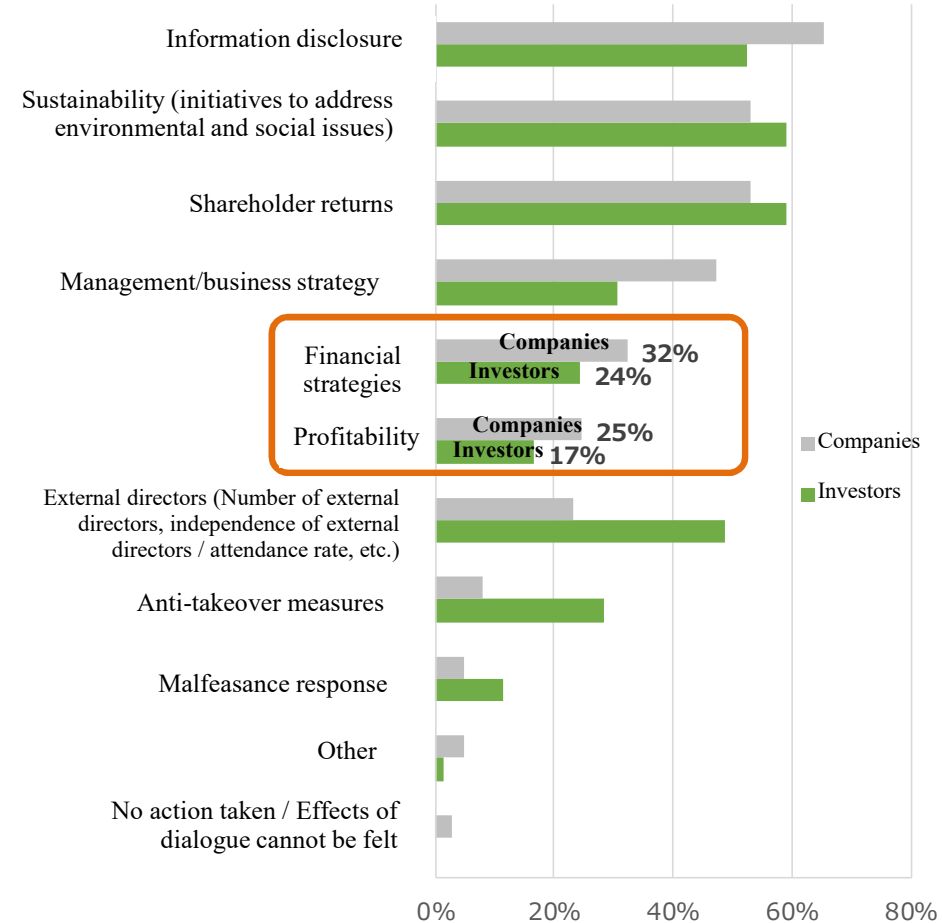
(Figure 1) [For companies/investors] (select up to three)

What are the main dialogue-related issues for investors/what do investors themselves see as the main issues?



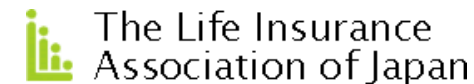
(Figure 1) [For companies/investors] (select up to three)

Themes for which action was taken or visible changes at investee companies were made, following dialogue



* Options are based on the written responses by companies

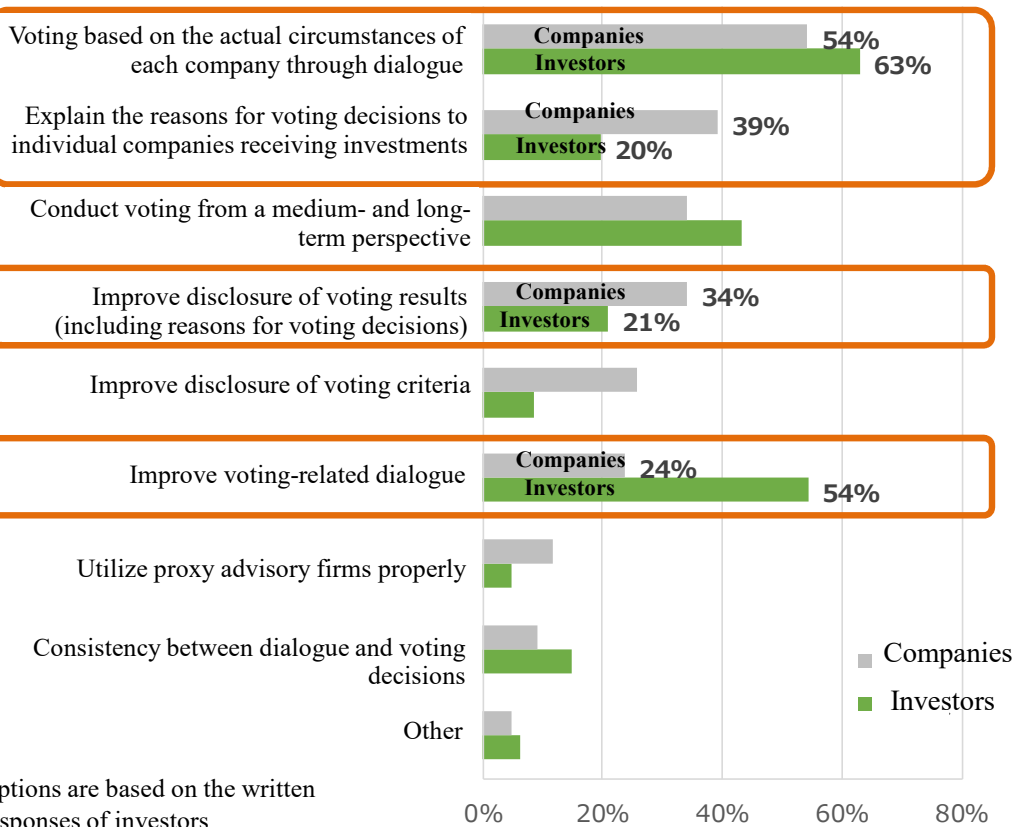
Recommendation (7): Facilitate mutual understanding of AGM proposals and shareholder voting through dialogue



- More than 50% of both companies and investors recognize the importance of voting based on the actual conditions of each company through dialogue. Investors also emphasize improving voting-related dialogue. (Figure 1)
- Companies believe it is important for investors to improve disclosure of voting results and explain the reasons for voting decisions. (Figure 1)
- Investors have stronger expectations than assumed by companies, for companies “to enhance explanations through dialogue and AGM notices” for prior resolutions that had substantial opposition. (Figure 2)

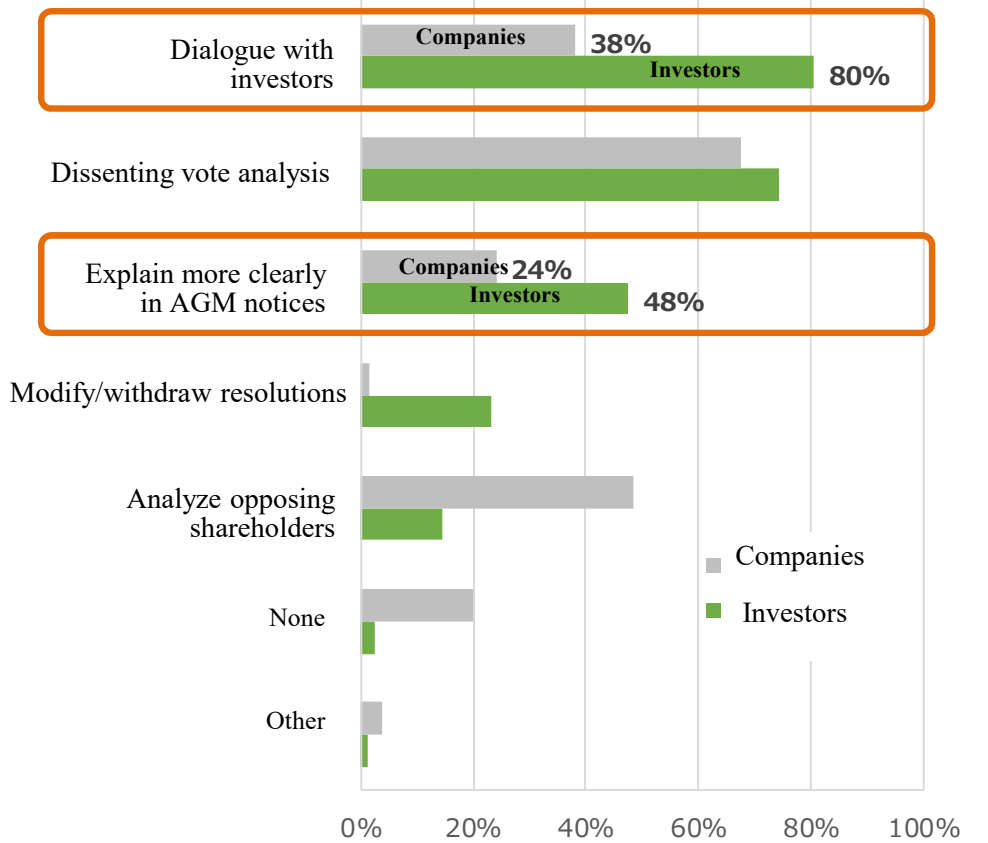
⇒ Foster mutual understanding of AGM proposals and shareholder voting through dialogue

(Figure 1) [For companies/investors] (select up to three)
What kinds of improvements do you expect from investors on shareholder voting? What kinds of improvements do you think will be necessary with respect to your shareholder voting?



* Options are based on the written responses of investors

(Figure 2) [For companies/investors] (select up to three)
What measures do companies take to address prior resolutions that had substantial opposition / and what measures do you expect of companies?

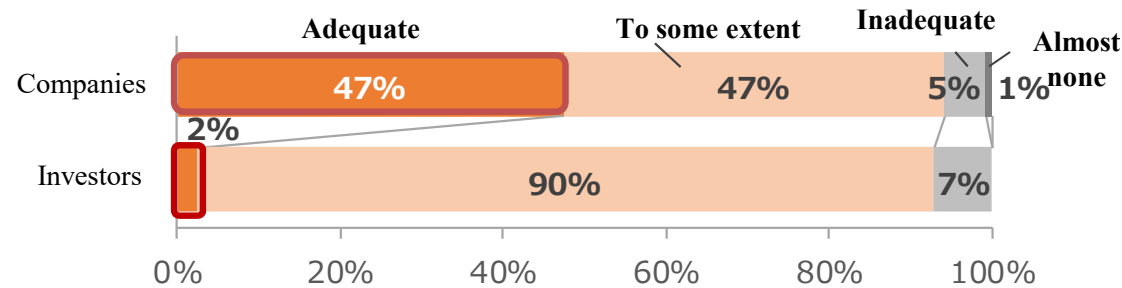


Recommendation (8): Provide further disclosure of non-financial information, including ESG, through integrated reports and other means

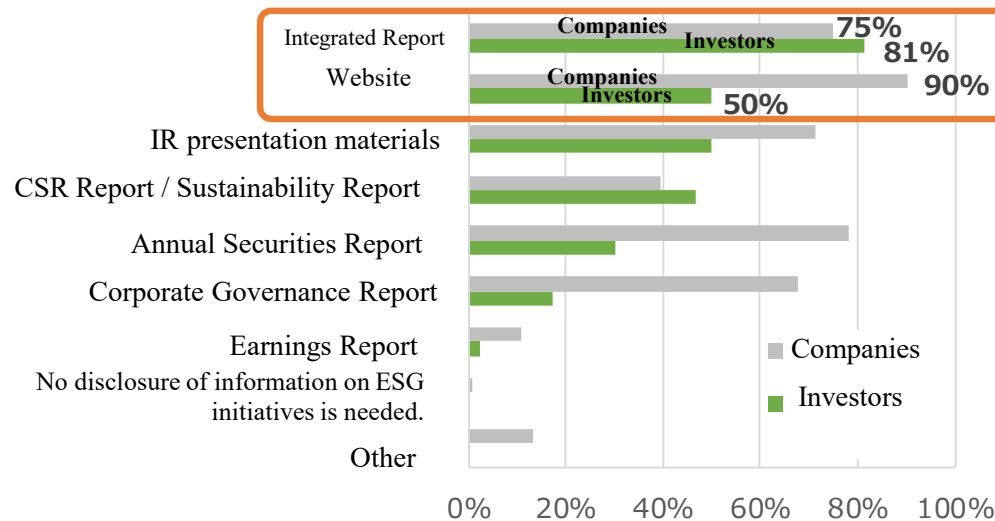
- There remains a perception gap between companies and investors on disclosure of ESG initiatives. 47% of companies believe disclosure is adequate, while only 2% of investors hold this view. (Figure 1)
- Although companies often disclose ESG information on their website, more than 80% of investors are requesting ESG disclosures to be released through integrated reports. (Figure 2)
- More than 70% of investors responded that they conduct dialogue on topics including ESG based on the use of integrated reports. (Figure 3)

⇒ Encourage communication with investors by enhancing disclosure of non-financial information, including ESG, through integrated reports and other means

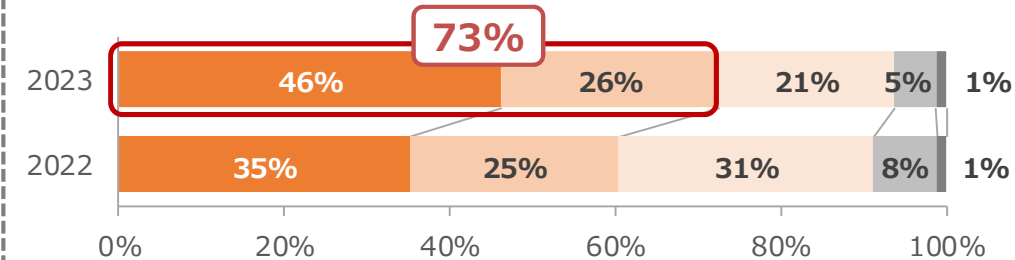
(Figure 1) 【For companies/investors】
Is the current disclosure of ESG initiatives adequate?



(Figure 2) 【For companies/investors】
What kinds of media do you use to disclose ESG initiatives? (select multiple) / Which would you like companies to use? (select up to three)



(Figure 3) 【For investors】
How integrated reports are used in dialogue



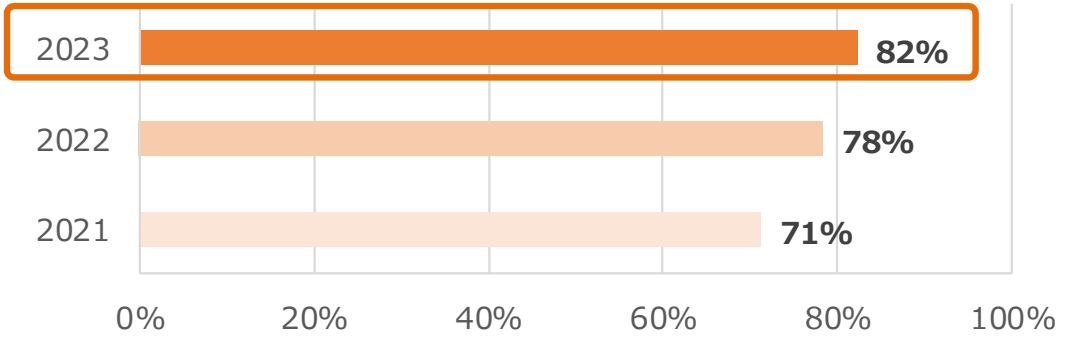
- Always checked when conducting dialogue
- Used as necessary for dialogue on ESG and other topics
- Not used adequately at present, but would like to use it in the future
- Not used, with no future plans to use it
- Other

Recommendation (9): Formulate and implement medium-term management plans to realize sustained growth, including ESG initiatives

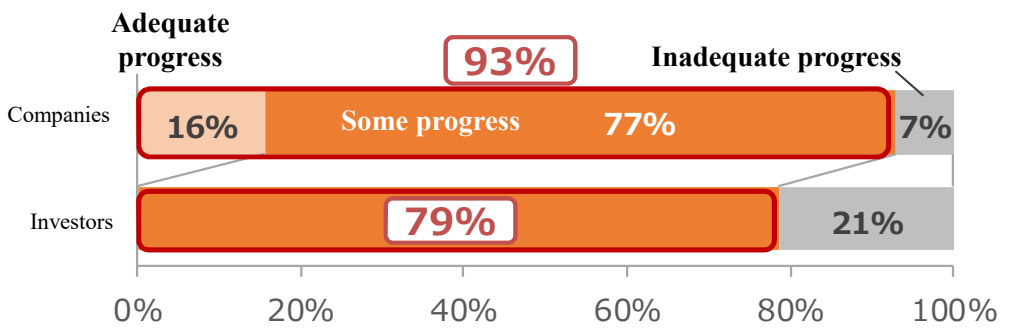
- The percentage of companies that have incorporated ESG initiatives into their medium-term management plans has steadily increased, but approximately 20% of companies have yet to do so. (Figure 1)
- There are signs of some progress on implementing initiatives to solve various ESG issues that have been incorporated into policies. (Figure 2)
- There is a perception gap between investors and companies, as more than 40% of investors answered that they view business model transformation as important to realizing sustainable growth over the medium and long term, while less than 30% of companies had the same view. (Figure 3)

⇒ With the view that ESG initiatives do affect corporate value, companies should formulate and implement medium-term management plans that contain ESG initiatives in order to achieve sustainable growth

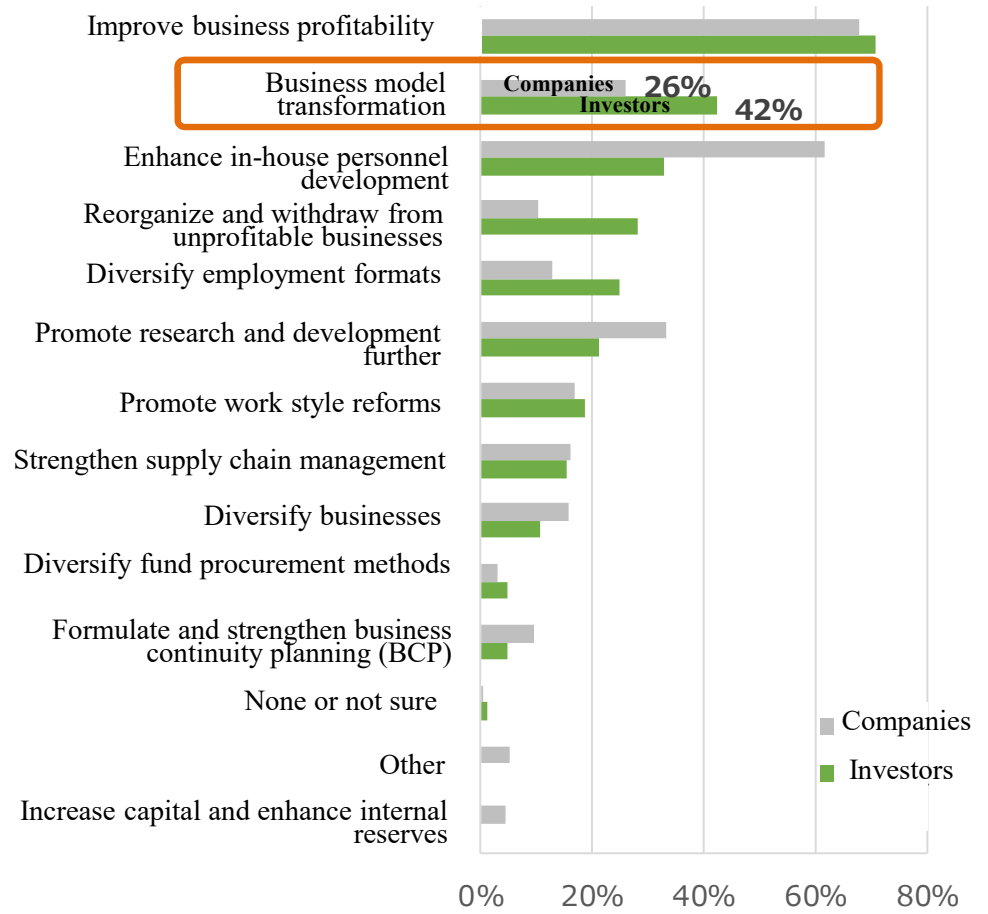
(Figure 1) 【For companies】
Trend in the percentage of companies that responded to the question “Which management policies incorporate ESG initiatives? (select multiple)” and replied that they incorporate ESG initiatives in their medium-term management plans



(Figure 2) 【For companies/investors】
Status of progress on companies’ initiatives to solve various ESG issues incorporated into management policies, etc.



(Figure 3) 【For companies/investors】 (select up to three)
Initiatives you will emphasize to achieve sustainable growth over the medium and long term

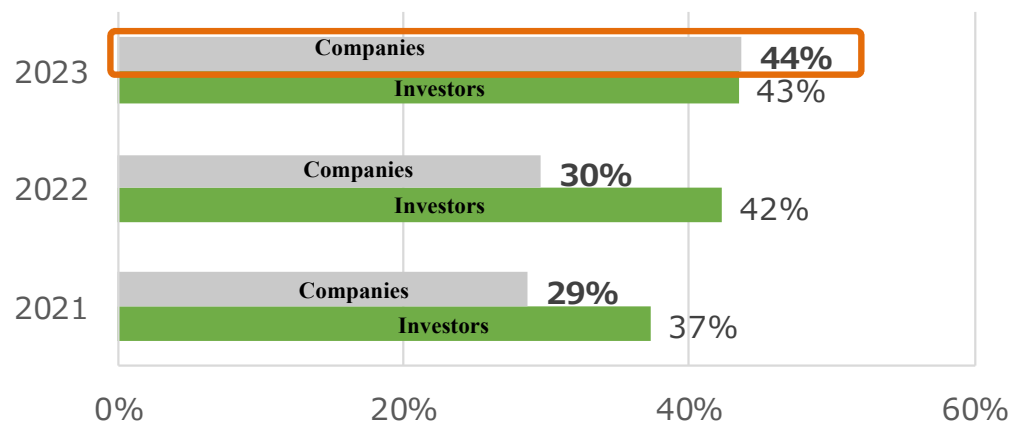


Recommendation (10): Promote initiatives to foster respect for human rights

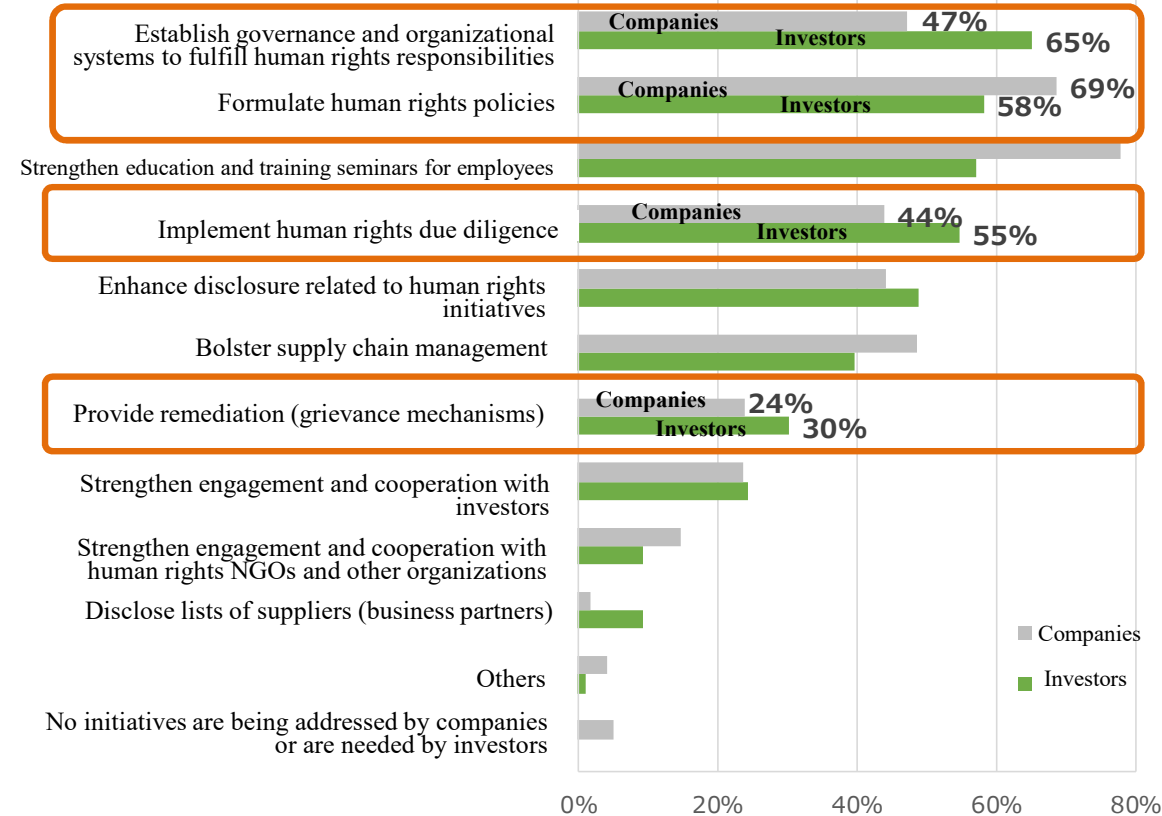
- More than 40% of companies cited respect for human rights as a major theme in their ESG activities, a percentage that has steadily grown. (Figure 1)
- Around 70% of companies have formulated human rights policies regarding initiatives to foster respect for human rights as outlined in recommendations such as the United Nations’ Guiding Principles on Business and Human Rights. Meanwhile, 44% of companies have implemented human rights due diligence, 24% have provided remediation, and 47% have established governance systems, an initiative that is most highly expected of companies by investors. These results indicate that less than half of the companies have been able to address each of these initiatives. (Figure 2)
- Companies are increasingly expected to promote human rights initiatives, as seen by the release of new policies by the Japanese government, such as the National Action Plan on Business and Human Rights and the Guidelines on Respecting Human Rights in Responsible Supply Chains.

⇒ Promote initiatives to foster respect for human rights as expected by guiding principles, etc.
(formulate and announce human rights policies, implement and disclose human rights due diligence, etc.)

(Figure 1) 【For companies/investors】
Trend in the share of respondents that answered “respect for human rights” in their responses to the questions “What are the major themes in your ESG activities (select up to five)?” and “What are the major themes in your ESG investment and financing (select up to five)?”



(Figure 2)【For companies/investors】(select multiple)
What initiatives are you already taking, or what initiatives do you expect companies to undertake, to foster respect for human rights?



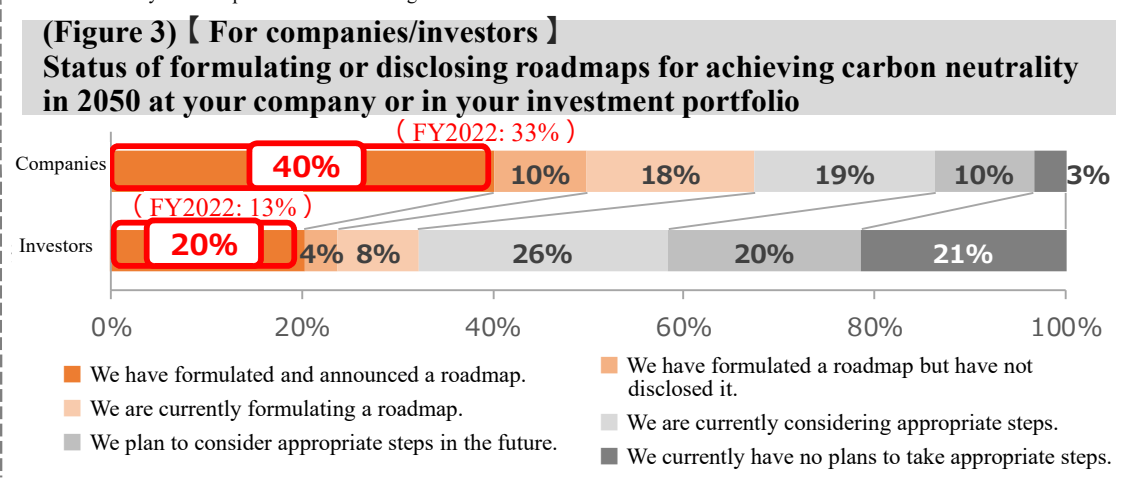
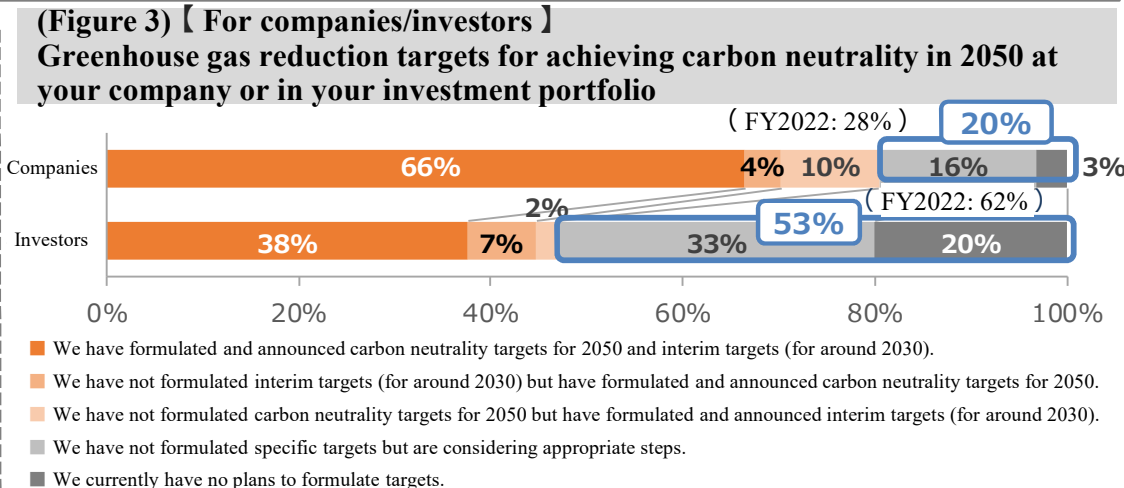
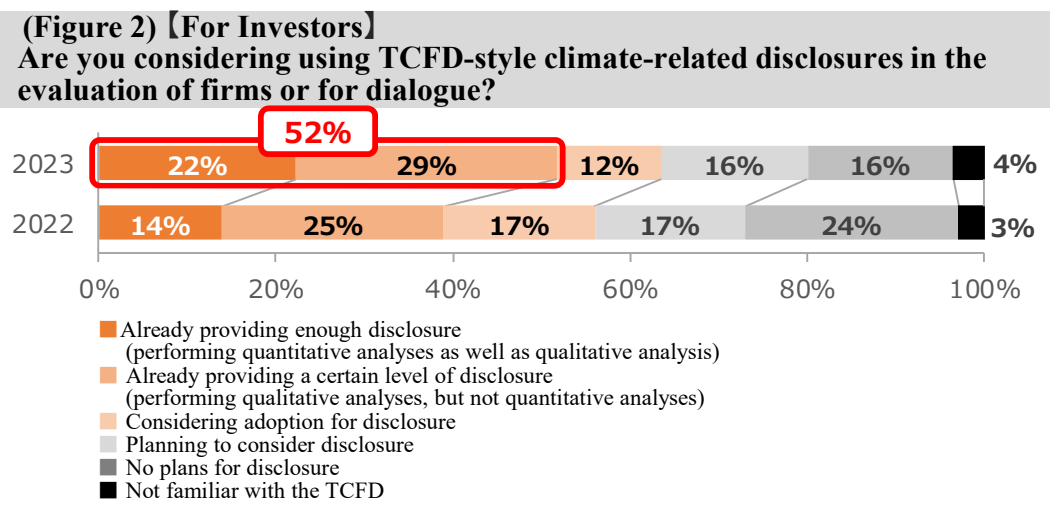
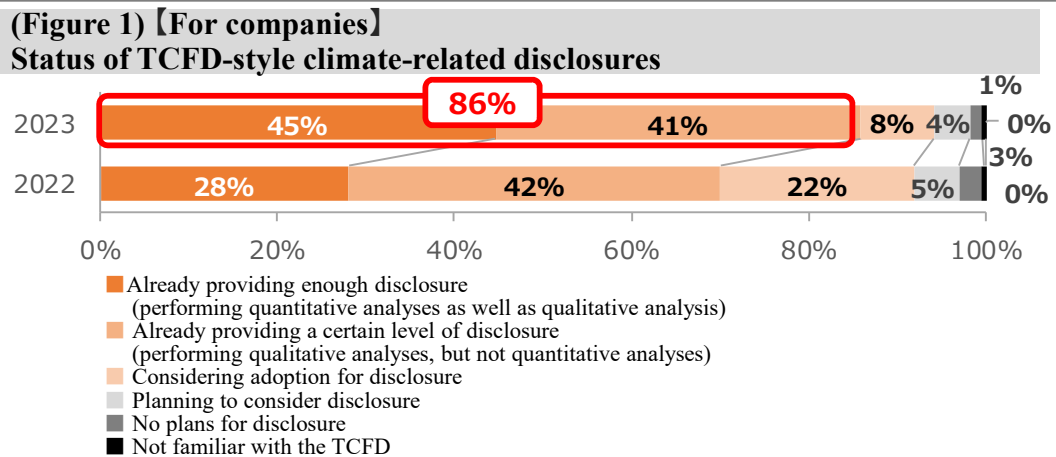
Recommendation (11):

[Companies] Appropriately disclose climate change-related information and consider formulating and disclosing greenhouse gas reduction targets and roadmaps

[Investors] Appropriately use climate change-related information and consider formulating and disclosing greenhouse gas reduction targets

- Around 86% of companies have already disclosed climate change-related information based on TCFD recommendations, but only about 45% of these companies include quantitative analysis in their disclosure. There is room to improve the analysis that serves as the basis for disclosure. (Figure 1)
- Investors are increasingly using disclosure of climate change-related information based on TCFD recommendations for company evaluations or dialogue activities, but the share of these investors remains around half. (Figure 2)
- Around 20% of companies and around 50% of investors have yet to formulate carbon neutrality targets to reduce greenhouse gases. (Figure 3) Only around 40% of companies and around 20% of investors have formulated or disclosed a roadmap. (Figure 4)

⇒ [For companies] Companies that appropriately disclose climate-related information, consider formulating and disclosing GHG emission reduction targets, and emit large amounts of GHGs should consider formulating and disclosing a roadmap.
 [For investors] Investors should appropriately use climate change-related information and consider formulating and disclosing GHG emission reduction targets

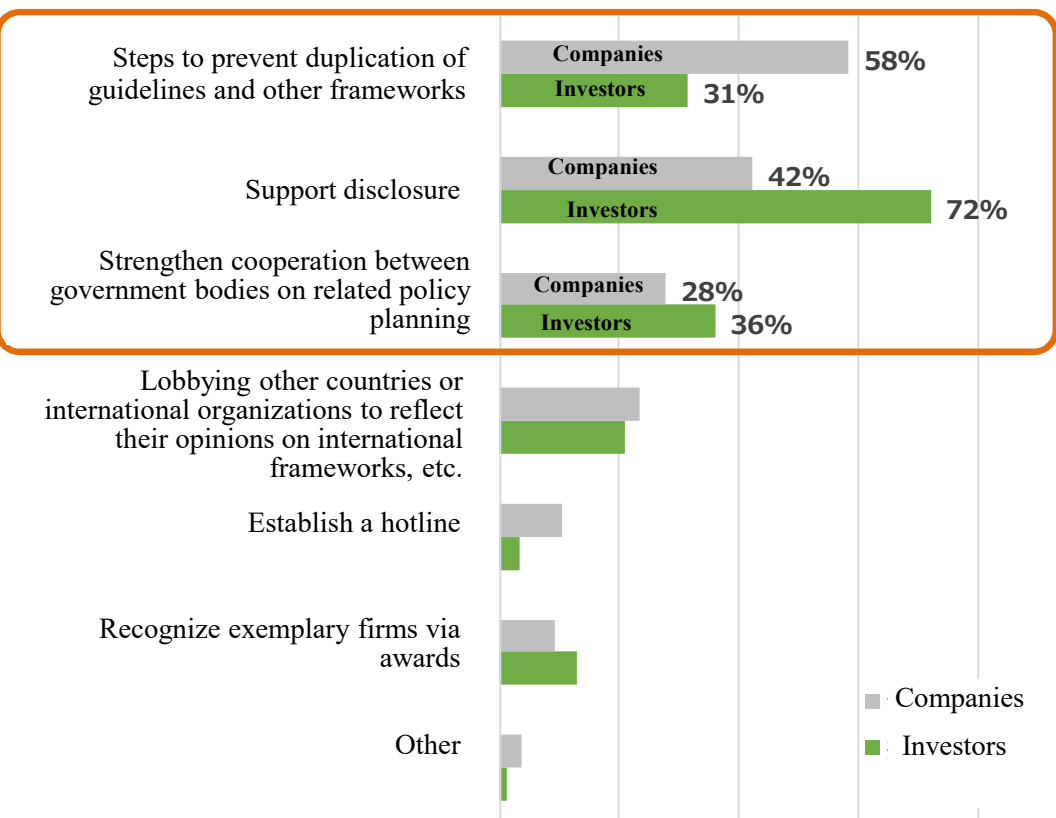


Recommendation (12): Take steps to promote ESG initiatives across government ministries/agencies

- Following on from the previous fiscal year, investors and companies both continue to expect the government to support corporate disclosure, take steps to prevent duplication of guidelines and other frameworks, and strengthen cooperation between government bodies on related policy planning, in the course of promoting corporate ESG initiatives and ESG investment and finance by investors. (Figure 1)
- Meanwhile, the government has bolstered various initiatives to promote ESG initiatives. It has enhanced cooperation between various government bodies through steps such as the announcement of the Basic Guidelines on Climate Transition Finance by the Taskforce on Preparation of the Environment for Transition Finance, a joint taskforce of three government bodies, specifically the Ministry of Economy, Trade and Industry (METI), the Financial Services Agency (FSA), and the Ministry of the Environment. (Reference)

⇒ Step up the creation of policies on the promotion of ESG initiatives across government ministries and agencies, in order to encourage the disclosure of ESG information and ESG investment and finance

(Figure 1) 【For companies/investors】 (select up to two)
What do you expect government authorities to do to promote ESG initiatives(companies) and ESG investment and finance (investors)?



* Options are based on the written responses of investors

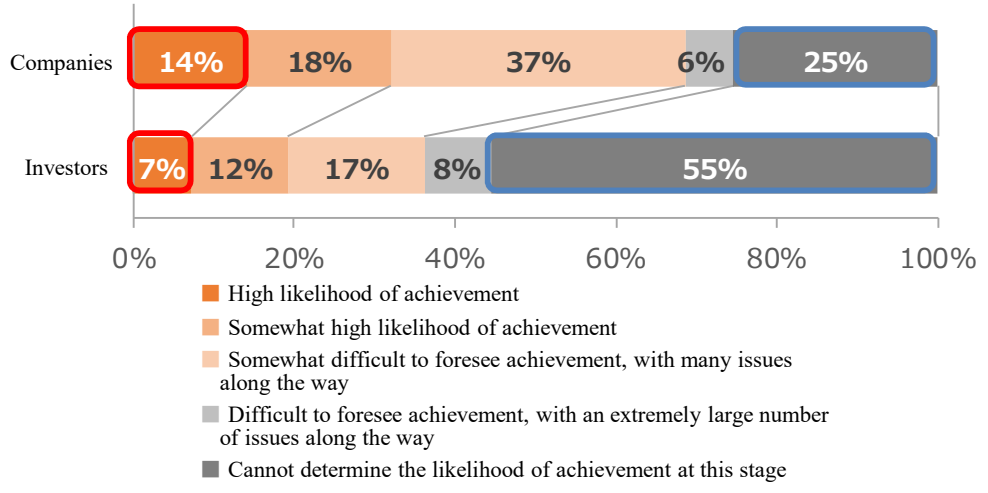
Reference: Government meeting structures and guidelines on ESG promotion initiatives	
Ministries/ Agencies	ESG Initiative Promotion Guidelines
Ministry of Economy, Trade and Industry, Financial Services Agency, and Ministry of the Environment	Study Group on Financing for the GX of Industry Measures Package
	Basic Guidelines on Climate Transition Finance
	Transition Finance Follow-up Guidance
	Addressing the Challenges of Financed Emissions
Financial Services Agency	Supervisory Guidance on Climate-related Risk Management and Client Engagement
	Code of Conduct for ESG Evaluation and Data Providers
Ministry of Economy, Trade and Industry	TCFD Guidance 3.0
	Guidance for Collaborative Value Creation 2.0/ITO Review 2.0
Ministry of the Environment	Green Loan and Sustainability Linked Bond Guidelines (2022) (Loan edition revised at the same time)
Cabinet Office	Intellectual Property/Intangible Assets Governance Guidelines
Cabinet Secretariat	Human Capital Visualization Guidelines

Recommendation (13): Further enhance policy-based support to realize carbon neutrality

- Only 14% of companies and 7% of investors said there was a “high likelihood” of achieving carbon neutrality in 2050. Meanwhile, the roadmap to achieving this goal is uncertain, with many respondents stating that they “cannot determine the likelihood of achievement at this stage.” (Figure 1)
- As for expectations for government actions, responses included “Propose energy policies centered on renewable energy,” “Develop infrastructure to expand renewable energy” and “Formulate specific roadmaps.” (Figure 2)

⇒ Formulate specific policies and further enhance policy-based support to increase the feasibility of realizing carbon neutrality

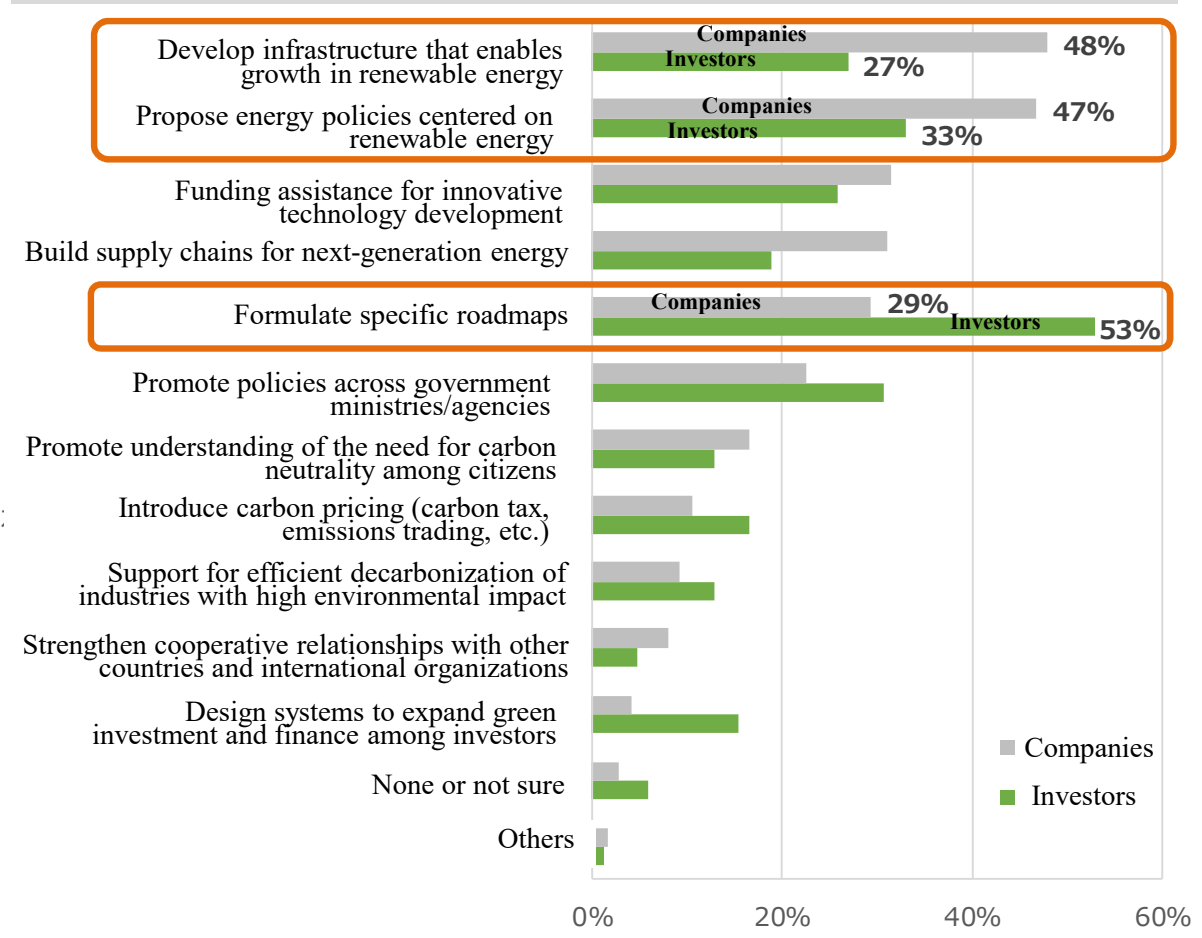
(Figure 1) [For companies/investors] Which of the following statements most closely describes your current position on the likelihood of achieving carbon neutrality in 2050 at your firm or in your firm’s investment portfolio?



(Reference) Major initiatives to address climate change by the government

- **Basic Policy for the Realization of GX (Announced February 2023)**
Summaries objectives for the upcoming 10 years for GX, which has the goals of decarbonization and energy supply-demand structure conversion
- **Act on Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure (GX Promotion Act) (entered into force in May 2023)**
Incorporates the Japanese government’s decarbonization strategy to achieve net zero greenhouse gas emissions by 2050

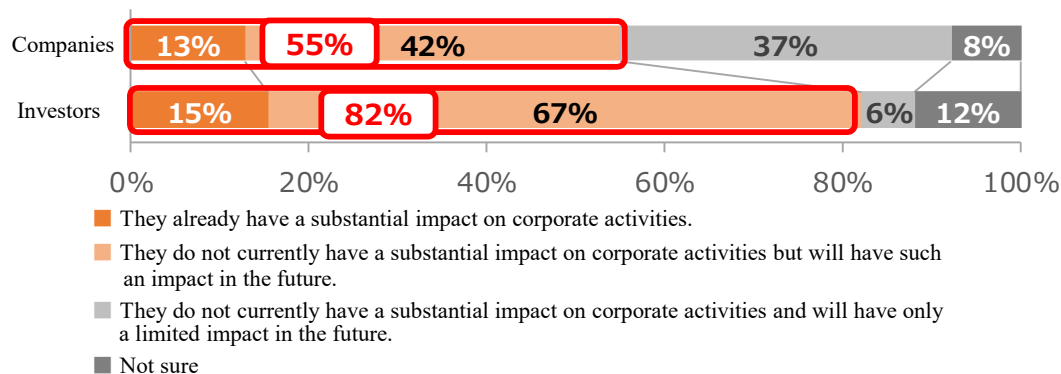
(Figure 2) [For companies/investors] (select up to three) What do you expect the government to do to achieving carbon neutrality in 2050?



【Topics】 Trends around the themes of biodiversity and natural capital

- 55% of companies and 82% of investors believe that the themes of biodiversity and natural capital are currently having a substantial impact on corporate activities and will continue to do so in the future. (Figure 1)
- The final recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) were released in September 2023. As a result, disclosure between global companies and investors is expected to progress in accordance with the TNFD recommendations. (Reference)
- More than 60% of investors emphasize “Analyze risks and opportunities” and “Formulate and disclose policies and strategies” as initiatives that companies should undertake, while only about 30% of companies are already implementing such initiatives. (Figure 2)

(Figure 1) 【For companies/investors】
Impact of the themes of biodiversity and natural capital on your company’s activities or the impact on corporate activities



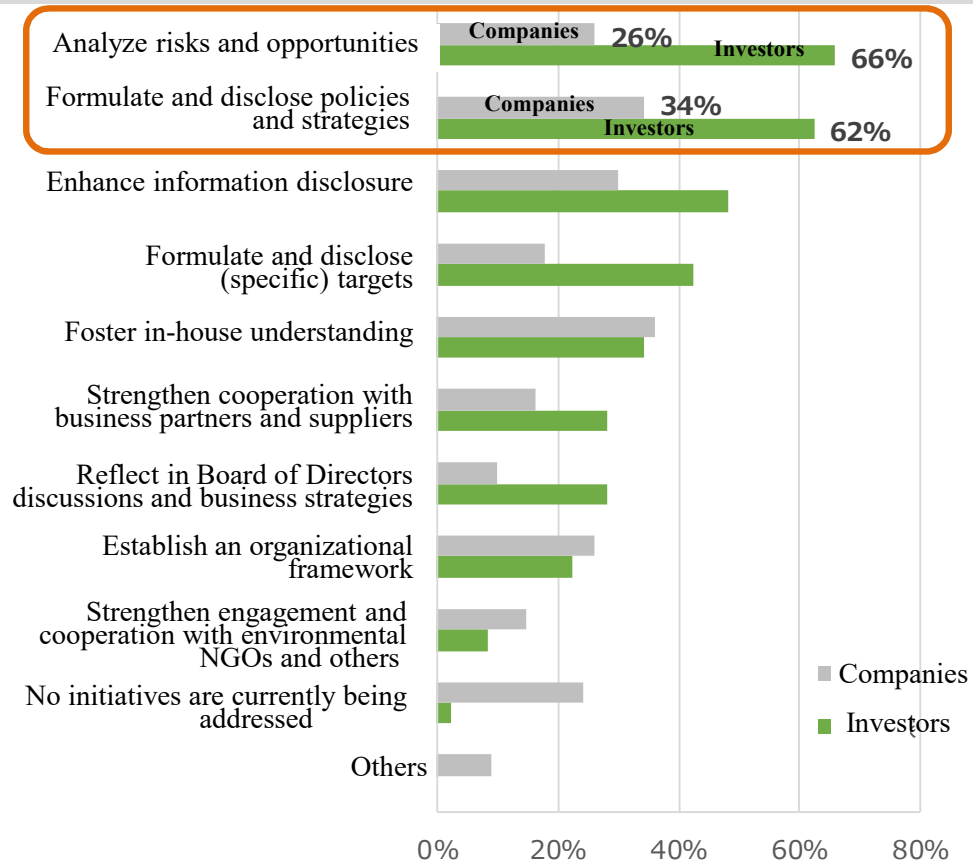
(Reference) Taskforce on Nature-related Financial Disclosures (TNFD)*1
Final Recommendations v1.0 (released September 2023)

- The TNFD framework is structured to allow companies and financial institutions to identify and assess nature-related issues, with the aim of achieving a “nature positive” state, which refers to stopping and restoring the loss of natural ecosystems.
- The framework comprises four main recommended disclosures: governance, strategy, risk & impact management, and metrics & targets. It adopts the LEAP approach*2 as an assessment process.

*1 An international initiative that seeks disclosure of information about business opportunities and risks from financial institutions and companies in terms of natural capital and biodiversity. It was formally established in June 2021.

*2 LEAP is a practical approach to addressing the TNFD disclosure framework that summarizes tasks using the keywords Locate, Evaluate, Assess, and Prepare (LEAP).

(Figure 2) 【For companies/investors】 (select multiple)
Initiatives that have already been implemented, or should be implemented by companies, to preserve and address biodiversity and natural capital



Supported efforts by companies to address decarbonization through requests for improving climate change disclosures

- From FY2017, the life insurers in the Stewardship Activities Working Group (WG) jointly initiated a collaborative engagement campaign to convey their awareness of issues to companies. In FY2023, just as in FY2022, the campaign targeted 148 listed companies (155 companies in total), while keeping in place the three themes of improving shareholder returns, improving ESG disclosures and improving climate change disclosures.
- On the theme of improving climate change disclosures, the campaign continued its efforts from the previous fiscal year to make the following two requests to all companies in the top 50 by greenhouse gas emissions (Scope 1 and 2): (1) perform a quantitative and qualitative analysis of management risks and opportunities associated with climate change and disclose this information; and in addition, (2) formulate and disclose a roadmap for greenhouse gas emission reductions with a view to achieving net zero emissions in 2050. Companies that have already made disclosures are encouraged to periodically review and upgrade analyses for (1) and improve disclosures as necessary for (2). Furthermore, the campaign newly requested all companies in about the top 20 by Scope 3 emissions to disclose their efforts to reduce Scope 3 emissions.

Equity market reinvigoration / Achieving a sustainable society

Improving shareholder returns

Targeted: 53 listed companies

Companies with sound finances, a low ratio of investing CF relative to operating CF, and a long-term dividend payout ratio of less than 30%

Targeted: 38 listed companies

Companies in the top 300 by market cap that do not provide integrated disclosure of financial and non-financial information

Improving ESG disclosure

Improving climate change disclosures

Targeted: Companies in about the top 50 by greenhouse gas emissions (Scope 1 and 2)*¹

*¹ Including companies to which requests were sent last year

- (1) Perform a quantitative and qualitative analysis of risks and opportunities
- (2) Formulate and disclose a roadmap

Encourage companies that have already made disclosures to periodically review and upgrade their analyses, etc.

Targeted: 64 listed companies

Targeted: Companies in about the top 20 by greenhouse gas emissions (Scope 3)*²

*² There is some overlap with the top-ranked companies by greenhouse gas emissions (Scope 1 and 2) shown to the left.

[New request]
Disclosure of efforts to reduce Scope 3 emissions

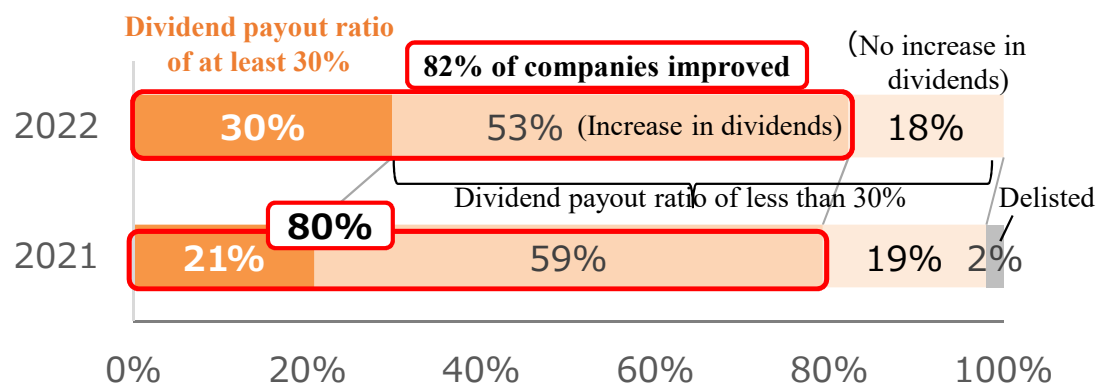
Dialogue by letter and meetings

Stewardship Activities WG (11 life insurers)

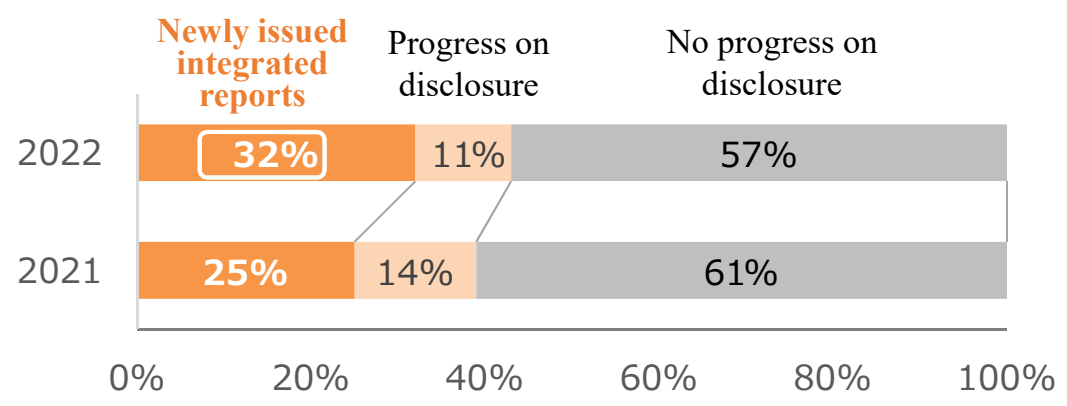
Results of the collaborative engagement campaign in the previous fiscal year

- With regard to improving shareholder returns, of the 57 targeted companies, 30% met the standard of a dividend payout ratio of 30%, which was a larger share of companies than in FY2022. 82% of companies improved, including those companies that increased dividends even if not achieving the standard.
- Looking at improving ESG disclosure, of the 47 targeted companies, 32% newly issued integrated disclosures, which was an increase over FY2022.
- In terms of improving climate change disclosures, of the 52 targeted companies, all companies have made disclosures about risks and opportunities and 94% have disclosed a roadmap, while those companies that have not made disclosures have all been confirmed to have a forward-looking attitude toward improvement in the future.

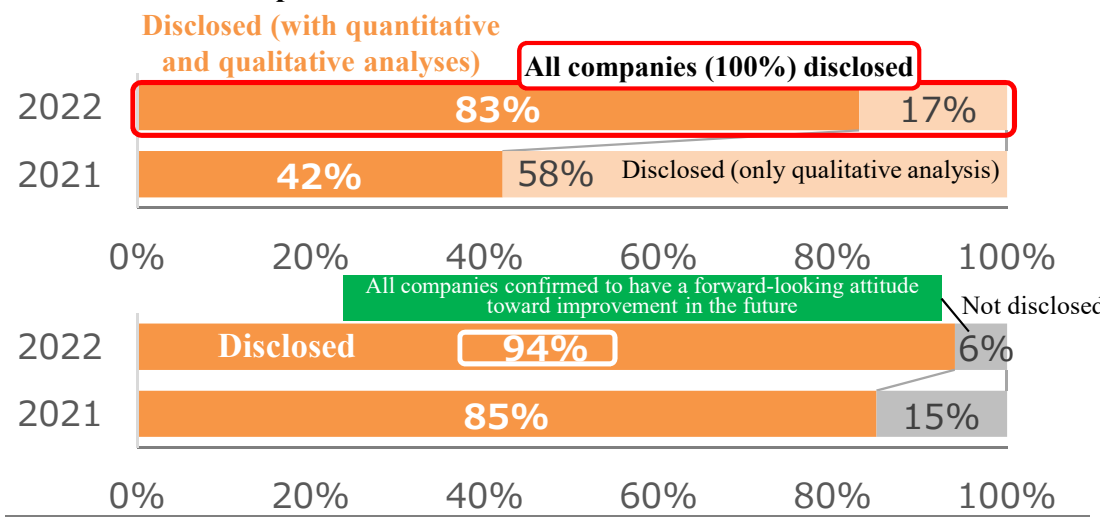
Improving shareholder returns



Improving ESG disclosure



Improving climate change disclosures (Top: Disclosure of risks and opportunities; Bottom: Roadmap formulation and disclosure)



(Reference) Status of activities of collaborative engagement in FY2022

Theme	Targeted companies	
Improving shareholder returns	57 companies	Companies with sound finances, a low ratio of investing CF relative to operating CF, and a long-term dividend payout ratio of less than 30%
Improving ESG disclosure	47 companies	Companies in the top 300 by market cap that do not provide integrated disclosure of financial and non-financial information
Improving climate change disclosures	52 companies	Companies in the top 50 by greenhouse gas emissions (Scope 1 and Scope 2) (Including companies to which requests were sent last year)
Total	152 companies	(156 companies in total)

Initiatives and approaches conducted or considered by WG participants to improve stewardship activities

- Based on the sharing of activity details among WG participants and interviews with external investors and other experts, each WG participant continuously strengthened its initiatives and other activities.
- WG participants are also actively engaged in dialogue on ESG issues such as climate change (E) and human capital and human rights (S).
- Additionally, WG participants took steps to expand stewardship activities beyond domestic listed shares, with initiatives centered on domestic corporate bonds.

Activity details		Comparison with the previous fiscal year	
		FY2022	FY2023
<u>(Number of WG participants)</u>		<u>11</u>	<u>11</u>
Dialogue theme	• E (climate change) dialogues	11	11
	• S (human rights, diversity) dialogues	11	11
	• Governance (G) dialogue	11	11
Manage, use and disclose the results of dialogue	• Dialogue findings used in investment decisions	11	11
	• Externally disclosed the outcomes and results of dialogue	11	11
Expand the scope of stewardship activities	• Expanded stewardship activities to domestic corporate bonds	11	11
	• Expanded stewardship activities beyond domestic corporate bonds (to foreign shares and corporate bonds, etc.)	6 (7)	7 (8)
Enhance voting disclosures	• Disclose voting criteria	10	10
	• Disclose voting results and the reasons for voting decisions	11	11

*1 “Conduct dialogue to address the spread of COVID-19,” which was listed in the previous fiscal year, has been removed after considering conditions and other factors.

*2 Figures in parentheses include the number of companies considering implementation in the next fiscal year.

Efforts to strengthen initiatives and approaches conducted or considered by WG participants

- Each WG participant is conducting interviews with external investors and other experts, as well as sharing information and exchanging views on participants’ initiatives and approaches.
- Each WG participant is establishing systems and pursuing initiatives aimed at promoting ESG investment and finance, based on factors such as their respective investment strategies.
- Notably, in FY2023, each WG participant strengthened initiatives such as disclosing interim GHG emissions reduction targets in the investment portfolio and measuring outcomes.

Activity details

Comparison with the previous fiscal year

		FY2022【20】	FY2023【20】
Approach	• Clearly include the term “ESG” in the basic investment policy	11	13
	• Become a signatory to PRI	18	18
Addressing climate change	• Endorse TCFD recommendations	17	17
	• Disclose information according to TCFD recommendations	16	16
	• Disclose net zero emission targets in the investment portfolio	14 (17)	15 (18)
	• Disclosed interim targets for investment portfolio and GHG emissions reduction	10 (15)	15 (17)
	• Conducted quantitative analysis related to investment portfolio and climate change	12 (17)	13 (18)
	• Integration ^{*1}	19	20
Main ESG investment and finance methods being used	• Engagement (Dialogue)	16	17
	• Positive screening ^{*2}	8	8
	• Negative screening ^{*3}	20	20
	• Impact investing	12 (14)	13 (14)
	• Measured outcome ^{*4}	10 (15)	12 (16)

*1: Meaning that ESG factors are reflected in the investment process

*2: Selected investment targets for specific stock, etc., from an ESG standpoint

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

*4: Completed measurements include companies that have not made disclosures

* Including cases where measures are undertaken at the holding company, group and other levels.

* Figures in parentheses include the number of companies considering implementation in the next fiscal year.

Interviews on progressive actions to enhance initiatives/approaches

- Participants in the ESG investment and finance WG continued to invite external experts to host seminars to foster their understanding of ESG investing and finance and enhance their initiatives/approaches.
- In FY2023, LIAJ held joint seminars for the ESG Investment and Finance WG and the Stewardship Activities WG on Environment (E) and Social (S) themes such as addressing climate change and human rights.

< Joint seminars with the Stewardship Activities WG >

Instructor	Seminar
GFANZ Japan Chapter	<ul style="list-style-type: none"> • Overview of GFANZ
Financial Services Agency	<ul style="list-style-type: none"> • Actions to accelerate corporate governance reforms
Kotonoha Law Office	<ul style="list-style-type: none"> • Business and human rights – defining sustainable and responsible business activities –
Ministry of Economy, Trade and Industry	<ul style="list-style-type: none"> • Promoting human capital management
JAPAN POST INSURANCE Co., Ltd.	<ul style="list-style-type: none"> • The next stage of ESG investment (future vision) – adding depth and sophistication to asset management and impact investment –
The Norinchukin Bank	<ul style="list-style-type: none"> • Overview of the Taskforce on Nature-related Financial Disclosures (v1.0) as a current topic of interest
Mitsubishi UFJ Financial Group, Inc.	<ul style="list-style-type: none"> • MUFG’s decarbonization initiatives
Schroder Investment Management (Japan) Limited	<ul style="list-style-type: none"> • Schroder’s ESG initiatives

Upgrade the initiatives of WG participants