

# LIAJ initiatives in FY2025

- Working groups (WG) 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 WG in FY2025.
- In addition, LIAJ implemented measures to refine and raise the sophistication of activities at each LIAJ member firm. Measures included holding joint WG seminars with sustainability (environment and society) themes, such as “Biodiversity and natural 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

From 1974

### LIAJ recommendations

Based on surveys of companies/investors

From 2017

### Collaborative engagement

Improving shareholder returns, considering the balance with financial and capital strategies and investment strategies, with an awareness of capital efficiency\*

Management that is conscious of cost of capital and stock price

Improving climate change disclosures

### Upgraded initiatives and approaches of WG participants

Stewardship Activities WG  
(10 life insurers)

Collaborating

ESG Investment and Finance WG  
(21 life insurers)

# FY2025 policy recommendations

- Regarding management that is conscious of cost of capital and stock price, which is required by the Tokyo Stock Exchange, most companies and investors replied that companies are addressing the matter, or have made a commendable effort, and Japanese companies continue to respond proactively and provide disclosure. At the same time, more than half of investors responded that the ROE levels of Japanese companies are still below capital costs, so the perception gap between companies and investors has not been adequately closed. In addition, investors expect companies to formulate and disclose medium-term management plans, etc. that also reflect the content of dialogue.
- Toward improving the effectiveness of the Board of Directors, half of investors felt that there were issues with the balance of experience and expertise of the Board of Directors as a whole. Investors expect the Board of Directors to be structured with a well-balanced mix of skills, considering the experience and expertise of both internal and external directors.
- Based on the aforementioned factors, new recommendations were made and some recommendations were partially revised with respect to management goals/financial strategies, improving corporate governance, and enhancing dialogue.

Recommendations		Target	Recommendations		Target
Management goals / financial strategies	(1) Set ROE and other return on capital targets considering investor expectations based on analysis and evaluation of the cost of capital and return on capital, and promote initiatives to raise the returns <span style="float:right">Revised</span>	Companies	Enhancing dialogue	(7) Promote dialogue based on in-depth understanding of companies from a medium- and long-term perspective and dialogue that contributes to the solution of issues facing companies (including financial strategies and profitability) <span style="float:right">Revised</span>	Investors
	(2) Formulate and execute medium- and long-term investment strategies linked to management strategy (including investments in human capital and intellectual property), considering the balance with shareholder returns and business characteristics <span style="float:right">Revised</span>			Shareholder voting	
	(3) Provide investors with thorough explanations of financial and capital strategies, including shareholder returns, and continue to provide shareholder returns based on those strategies (dividend payout ratios of at least 30%) <span style="float:right">Revised</span>		Promoting sustainability initiatives		(9) Provide further disclosure of non-financial information, including sustainability initiatives, through integrated reports and other means
(4) Improve the effectiveness of the Board of Directors through a director composition with a well-balanced mix of skills, including the experience and expertise of each director <span style="float:right">New</span>	(10) Formulate and execute sustainability initiative plans linked to management strategy as indicated in the medium-term management plans, etc.				
Improving corporate governance	(5) Improve disclosures about expectations of external directors' roles and their performance		(11) Promote initiatives to foster respect for human rights	Investors	
Enhancing dialogue	(6) Encourage active involvement of management in dialogue, and formulate and disclose medium-term management plans, etc. that also reflect the content of dialogue <span style="float:right">Revised</span>	(12) Appropriately disclose and use climate change-related information and consider formulating and disclosing greenhouse gas reduction targets and roadmaps <span style="float:right">Revised</span>	Investors		
		(13) Promote sustainability initiatives across government ministries/agencies <span style="float:right">Revised</span>	Government		
		(14) Further enhance policy-based support to realize carbon neutrality	Government		

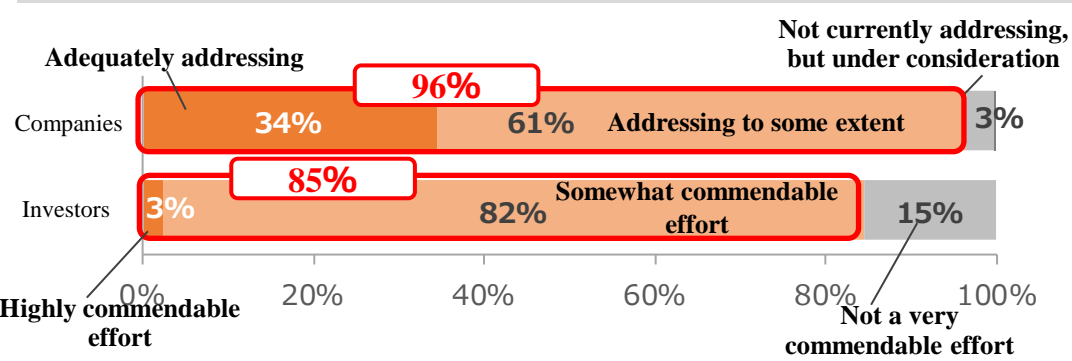
**Survey on initiatives to enhance corporate value** <Purpose> To implement recommendations for equity market reinvigoration and achieving a sustainable society based on results of surveys on initiatives and awareness of companies/investors  
 <Survey targets and response rate> Listed companies 37% (447/1,200 companies); investors 49% (87/179 companies)

**Recommendation (1): Set ROE and other return on capital targets considering investor expectations based on analysis and evaluation of the cost of capital and return on capital, and promote initiatives to raise the returns**

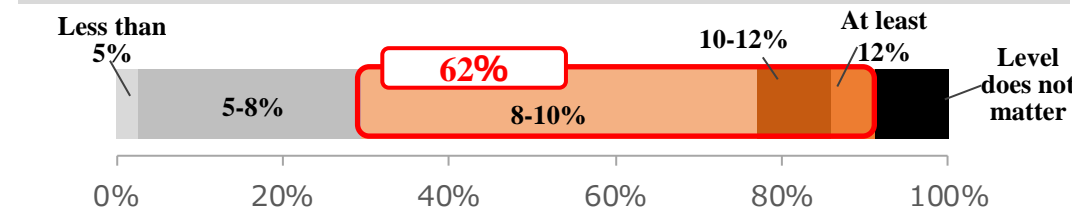
- Regarding management that is conscious of cost of capital and stock price as required by the Tokyo Stock Exchange, most companies and investors replied that companies are addressing the matter, or have made a commendable effort, and Japanese companies continue to respond proactively and provide disclosure. (Figure 1)
- At the same time, while more than 60% of investors expect companies to attain an ROE of at least 8% (Figure 2), the percentage of listed companies with an ROE of 8% or higher has increased to more than 60% (Reference). However, more than half of investors responded that the ROE levels of Japanese companies are below capital costs. The gap in how the current situation is perceived between companies and investors has not been adequately closed. Through dialogue between investors and companies, it is thought that investors and companies need to align their expectations for target levels and promote initiatives to achieve targets. (Figure 3)

**⇒ Set ROE and other return on capital targets considering investor expectations, and promote initiatives to raise the returns**

**(Figure 1) [For companies/investors]**  
 Evaluation of your company's response to the Tokyo Stock Exchange's request for Action to Implement Management that is Conscious of Cost of Capital and Stock Price, and the evaluation of the response of Japanese companies

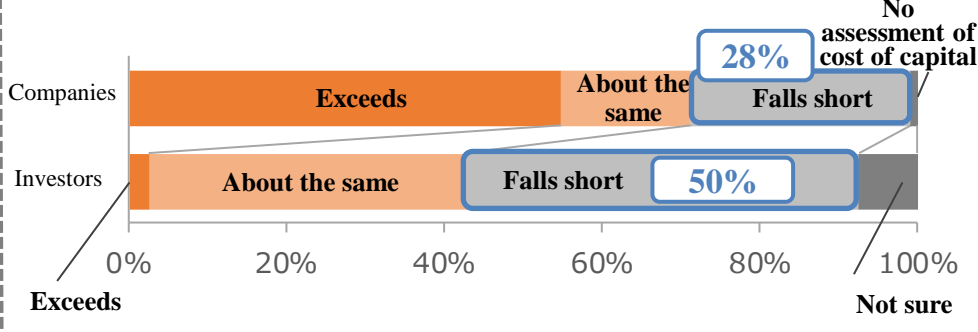


**(Figure 2) [For investors]** Minimum ROE level expected of investee companies

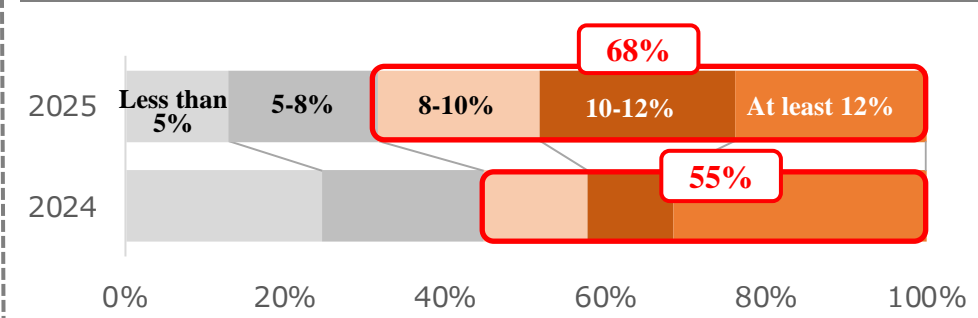


Note: Percentage figures are rounded to the nearest percent, so they will not necessarily sum to 100. The same applies hereafter.

**(Figure 3) [For companies]** Does your company's ROE level exceed the cost of capital?  
**[For investors]** Does the ROE level for Japanese companies exceed the cost of capital?



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



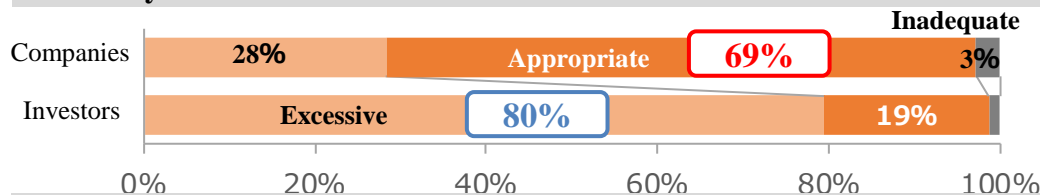
Source: Nikkei QUICK  
 Note: All listed firms (excluding unprofitable firms and the financial sector)

**Recommendation (2): Formulate and execute medium- and long-term investment strategies linked to management strategy (including investments in human capital and intellectual property), considering the balance with shareholder returns and business characteristics**

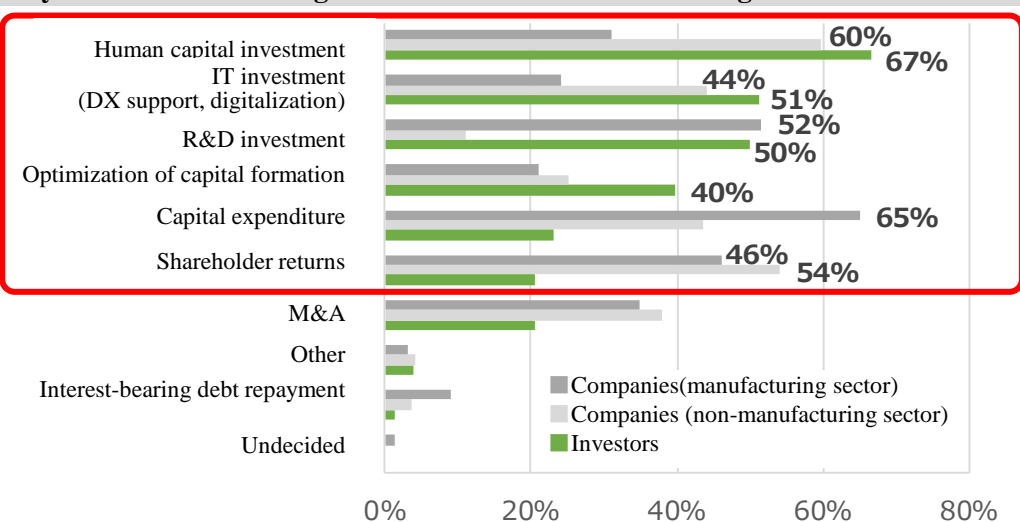
- 69% of companies believe the levels of cash balances are appropriate. Meanwhile, 80% of investors see current levels of cash balances as excessive, which continues the historical gap in perception between investors and companies. (Figure 1)
- In medium- and long-term investment and financial strategy, while companies emphasize shareholder returns, the manufacturing sector places importance on capital expenditure and R&D investment, whereas the non-manufacturing sector places importance on human capital investment and IT investment, emphasizing investment strategies aligned with business characteristics. Meanwhile, investors, while also emphasizing optimization of capital formation, view investment that includes intangible assets such as human capital investment, R&D investment, and IT investment as important. (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)

**⇒ Formulate and execute medium- and long-term investment strategy, including human capital and intellectual property linked to management strategy, considering appropriate levels of cash on hand, the balance with shareholder returns, and business characteristics**

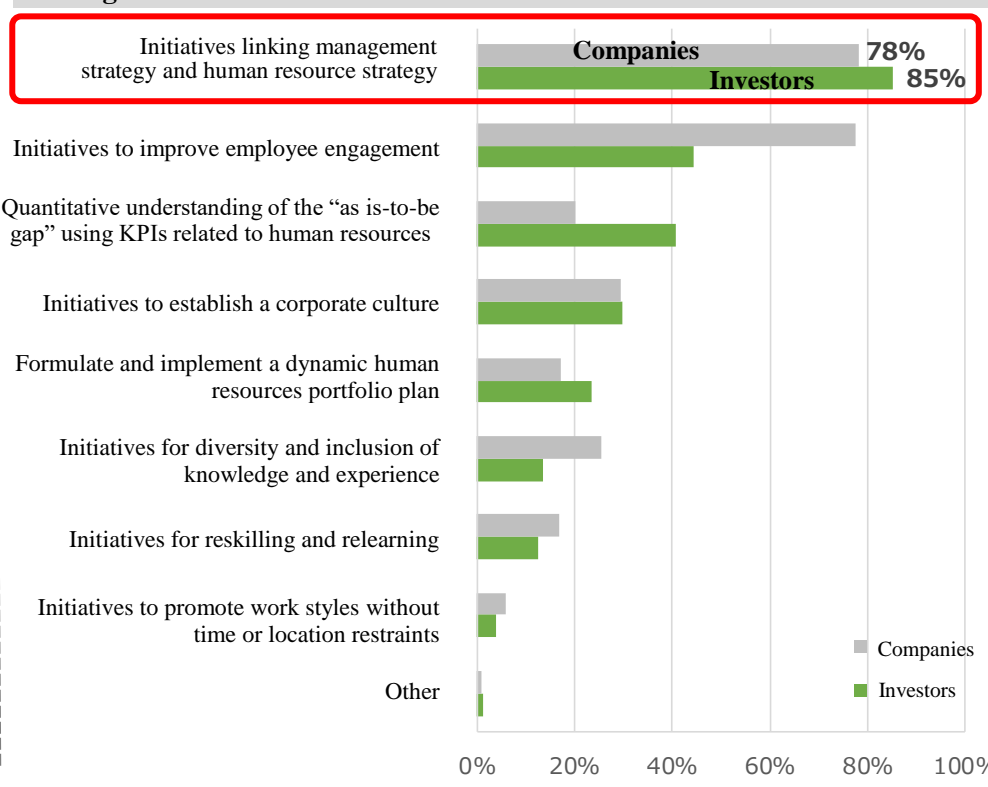
**(Figure 1) [For companies/investors]  
How do you see current levels of cash hand?**



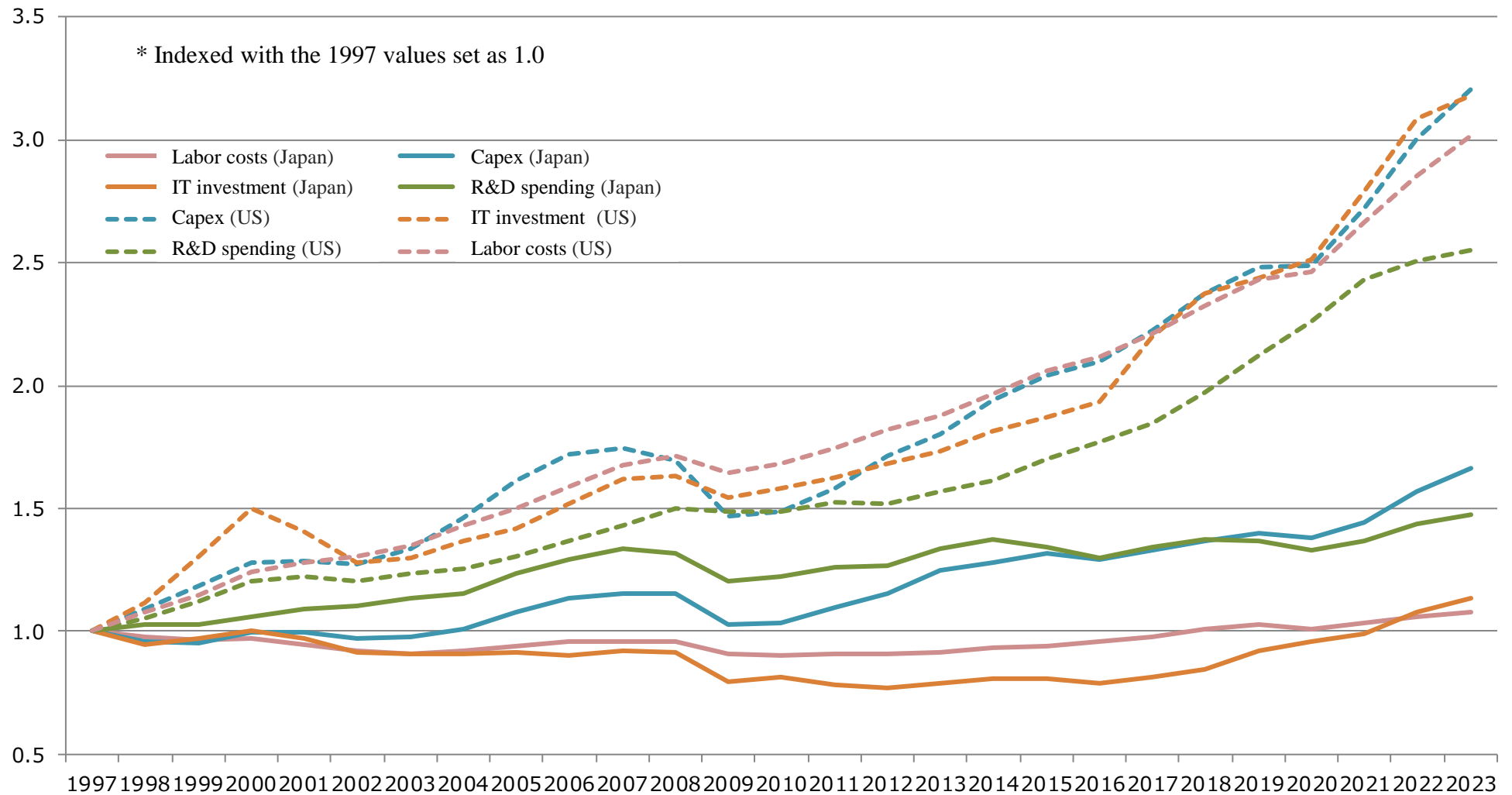
**(Figure 2) [For companies/investors](select up to three)  
What do you think are important matters to consider, or should be considered, in your medium-and long-term investment/financial strategies?**



**(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&amp;D spending in Japan/US

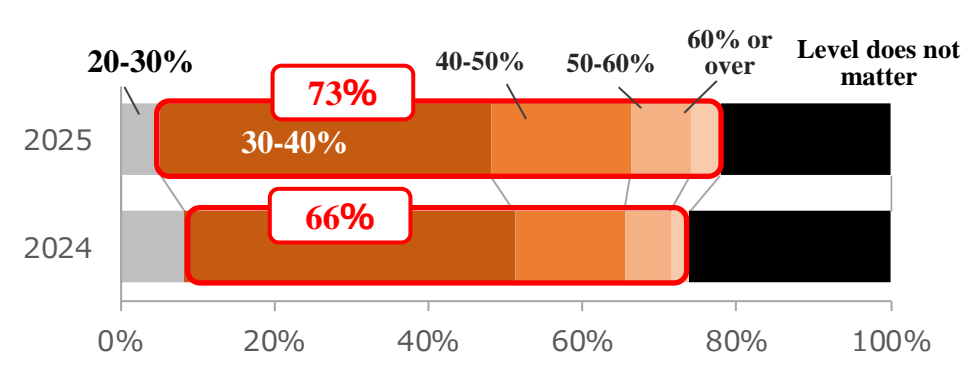


Recommendation (3): Provide investors with thorough explanations of financial and capital strategies, including shareholder returns, and raise shareholder returns over the medium and long terms (dividend payout ratios of at least 30%)

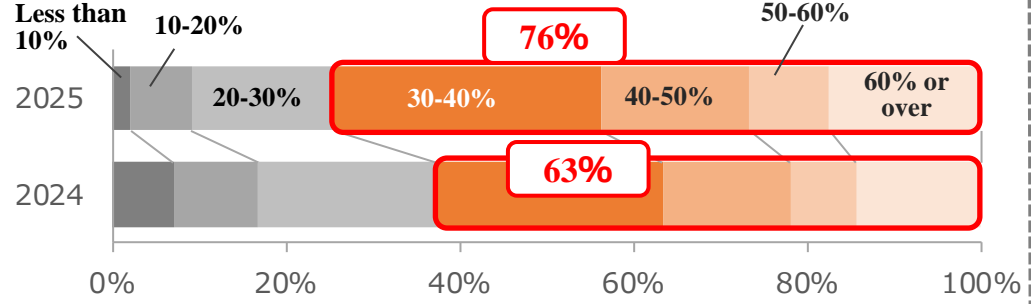
- With 73% of investors expecting a dividend payout ratio of 30% or higher over the medium and long term (Figure 1), companies with payout ratios of 30% or higher have increased from the previous fiscal year to 76%, indicating that companies have been making steady progress in their response. (Reference) For these reasons, investors who replied that shareholder returns and dividends are satisfactory at many firms have also gradually increased to 29%. (Figure 2)
- In addition, 74% of investors replied that they have received some explanation in terms of capital efficiency and the need for internal reserves and investment, and that percentage has been gradually increasing. (Figure 3)

⇒ Provide investors with thorough explanations of financial and capital strategies, including shareholder returns, and continue to provide shareholder returns based on those strategies (dividend payout ratios of at least 30%)

(Figure 1) 【For investors】 Desired medium- and long-term level of dividend payout ratios

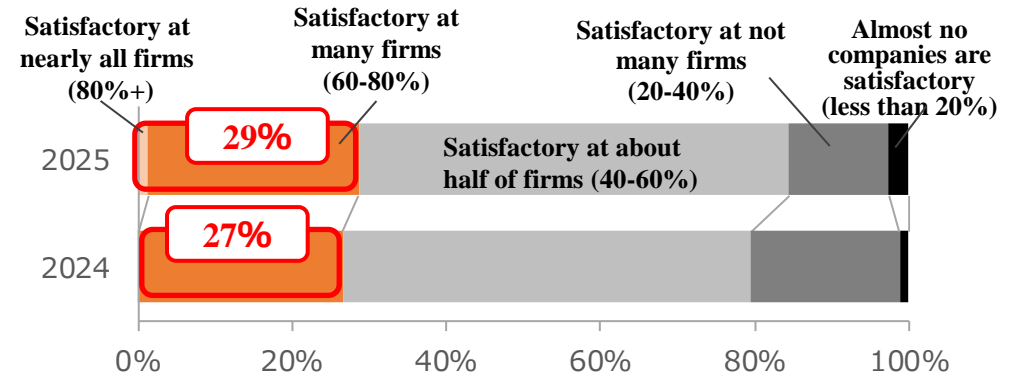


Reference: Distribution of payout ratio for listed companies (actual)

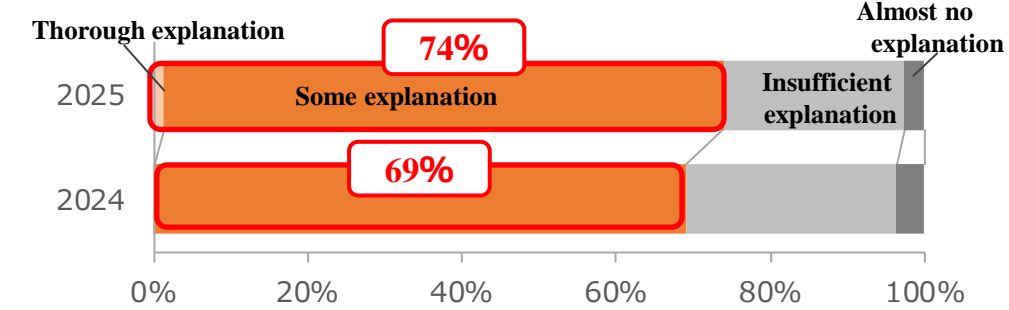


Source: Nikkei QUICK Note: TOPIX components (excluding unprofitable firms)

(Figure 2) 【For investors】 Satisfaction level for shareholder returns and dividends



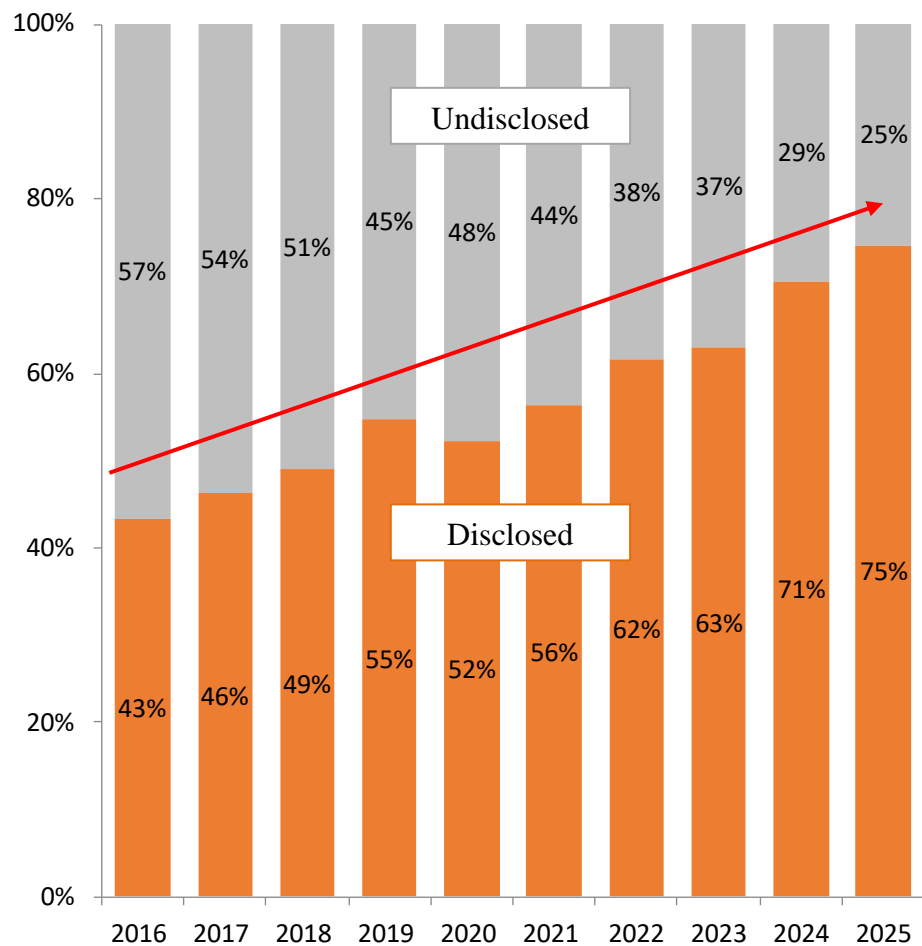
(Figure 3) 【For investors】 Explanations in terms of capital efficiency and the need for internal reserves and investment



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

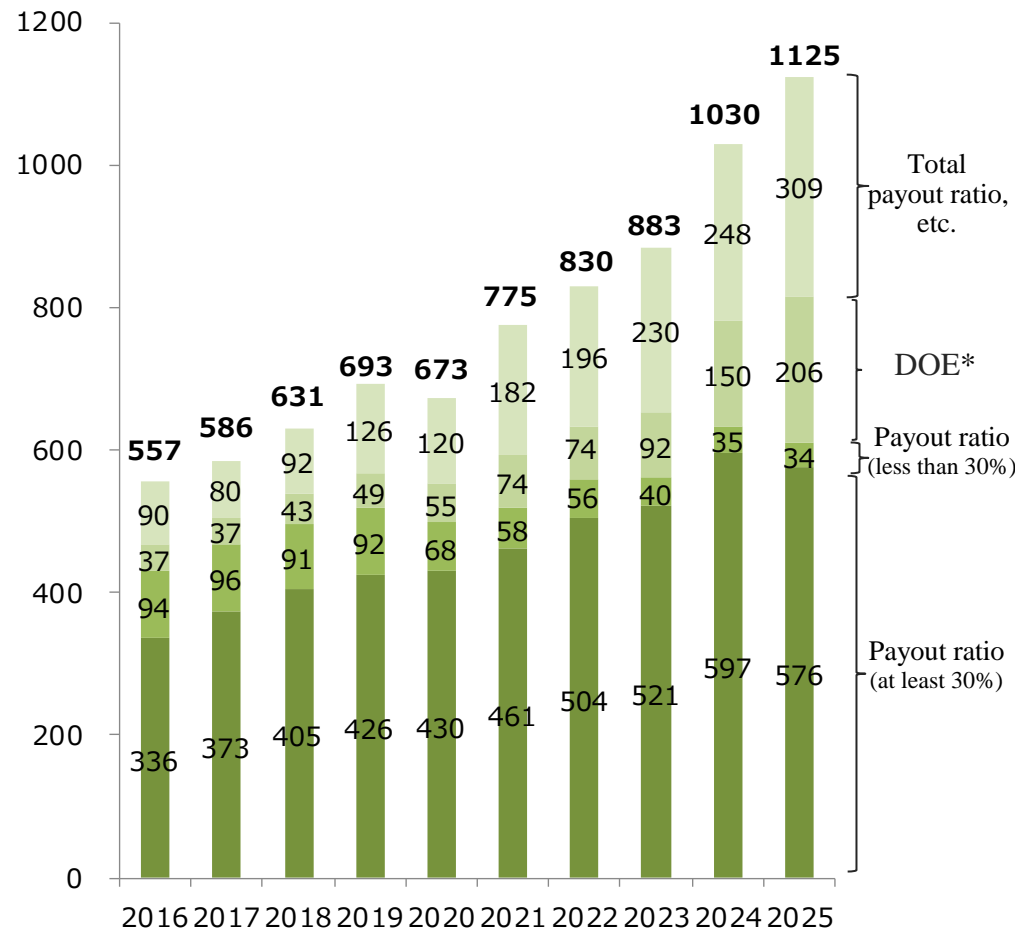


Proportion of firms with official SR targets



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

Number of firms disclosing numerical SR targets by target type



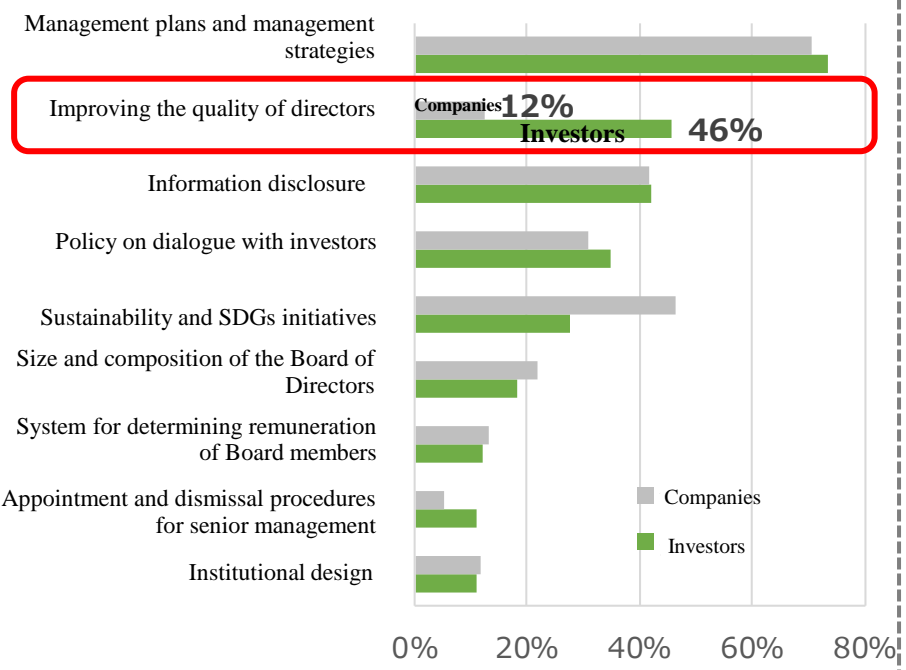
Source: LIAJ research  
Based on survey of top 1,200 listed stocks by market capitalization  
Note: Firms with multiple SR targets are counted for each target  
\* DOE: dividend-on-equity ratio

Recommendation (4): Improve the effectiveness of the Board of Directors through a director composition with a well-balanced mix of skills, including the experience and expertise of each director

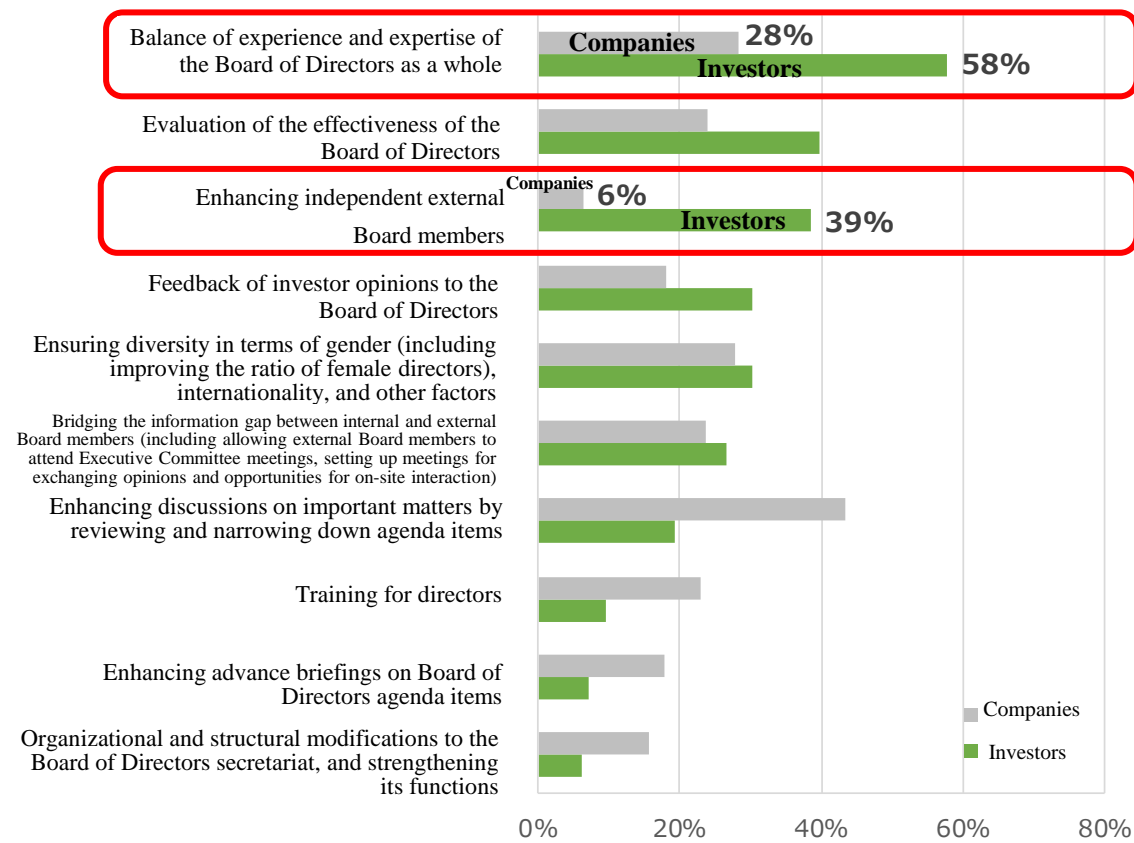
- 46% of investors selected “Improving the quality of directors” as an item for which they expect stronger efforts from the perspectives of sustainable growth and medium- and long-term enhancement of shareholder value, indicating a large gap in perception with companies. (Figure 1)
- In terms of the issues investors perceive to be hindering improvement in the effectiveness of the Board of Directors, there is a large perception gap between investors and companies regarding the “balance of experience and expertise of the Board of Directors as a whole” and “enhancing independent external Board members.” Investors expect the Board of Directors as a whole to have a well-balanced mix of skills, considering the experience and expertise of both internal and external directors. (Figure 2)

⇒ Improve the effectiveness of the Board of Directors through a director composition with a well-balanced mix of skills, including the experience and expertise of each director

(Figure 1) [For companies/investors] (select up to three) Items for which efforts will be strengthened / items for which stronger efforts are expected from the perspectives of sustainable growth and medium- and long-term enhancement of shareholder value



(Figure 2) [For companies/investors] (select up to three) Issues perceived to be hindering improvement in the effectiveness of the Board of Directors



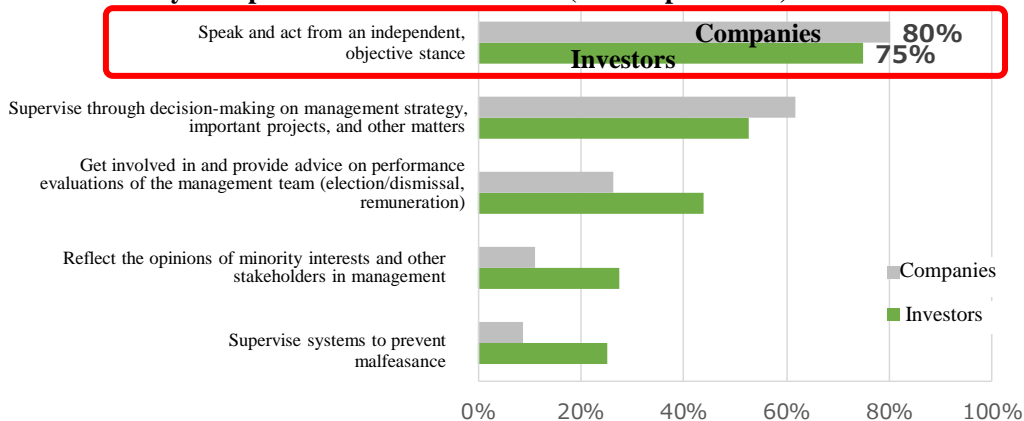
## Recommendation (5): Improve disclosures about expectations of external directors' roles and their performance

- 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, and trends are generally in line with this (Figure 1), but regarding the fulfillment of roles by external directors, a majority of companies responded that the role is being fulfilled, while 41% of investors responded that it is being fulfilled inadequately and needs improvement, showing a perception gap between companies and investors. (Figure 2)
- In monitoring and evaluating the roles, performance, and other aspects of external directors, over 40% of investors think the briefings are inadequate (Figure 3) and expect enhancement of disclosure of the reasons for selecting external directors and the roles expected of them (Figure 4).

⇒ 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】

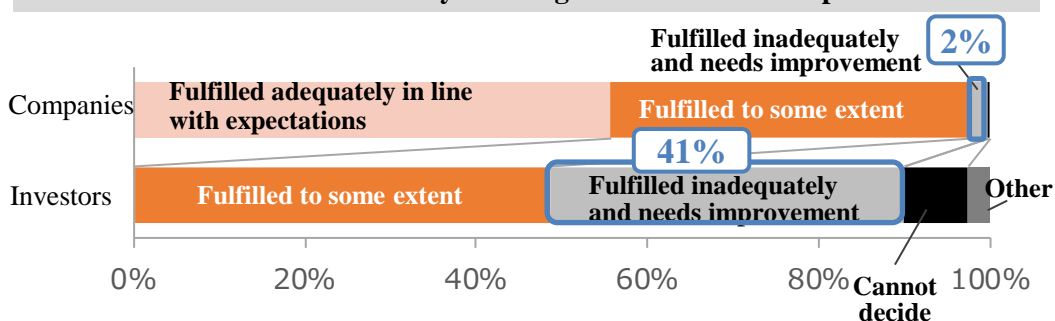
What roles do you expect of external directors? (select up to three)\*



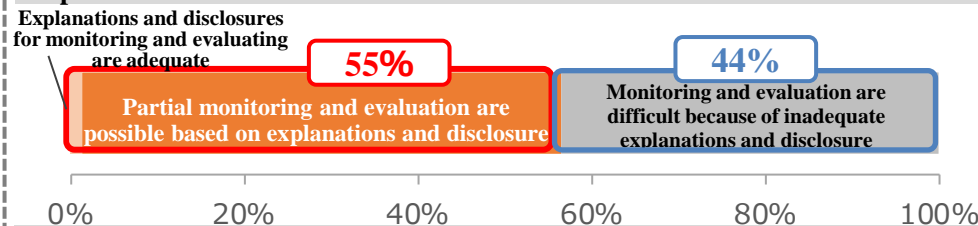
\* Only items with a high investor selection rate are shown. Refer to the document version for questionnaire results, including the selection rates for items not shown in Figure 1 (Company Questionnaire Q1 (4) / Investor Questionnaire Q1 (4)).

(Figure 2) 【For companies/investors】

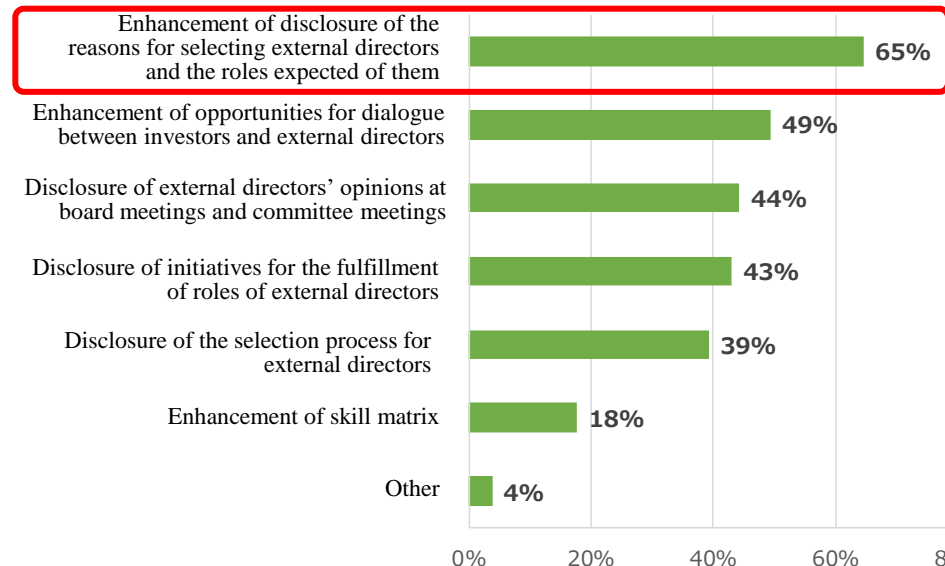
Are external directors sufficiently fulfilling the roles that are expected of them?



(Figure 3) 【For investors】 Do companies provide adequate explanations and disclosure for monitoring and evaluating the roles, performance, and other aspects of external directors?



(Figure 4) 【For investors】 Efforts expected of companies for monitoring and evaluating the roles, performance, and other aspects of external directors



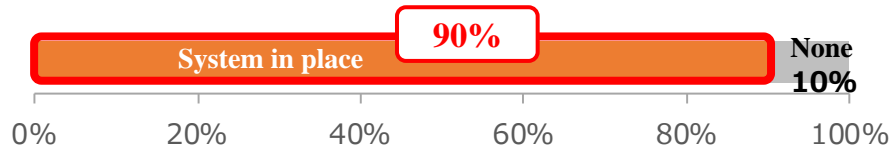
Recommendation (6): Encourage active involvement of management in dialogue, and formulate and disclose medium-term management plans, etc. that also reflect the content of dialogue



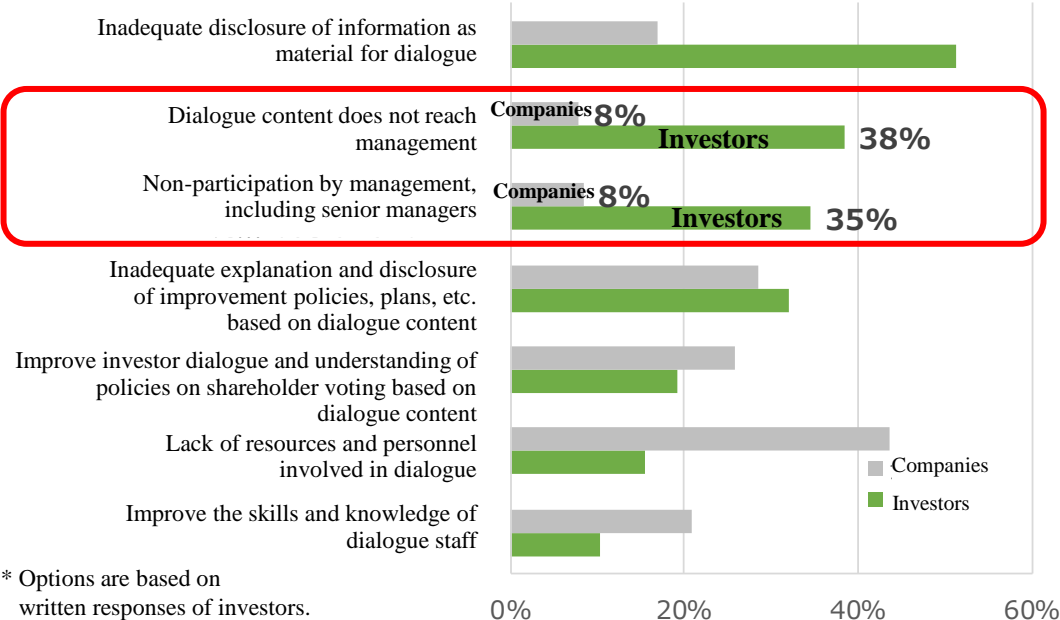
- Although around 90% of companies have systems in place to share dialogue content with management, just over 30% of investors feel that “dialogue content does not reach management,” and that there is “non-participation in dialogue by management, including senior managers” indicating a large perception gap between investors and companies. (Figures 1 and 2)
- As examples of initiatives by companies for which investors felt that dialogue content reached management or that management was involved in dialogue, investors cite, “Investor views are reflected in medium-term management plans, etc. and disclosed” and “The status of dialogue, specific examples, and the results of discussions within management are disclosed.” (Figure 3)

⇒ Encourage active involvement of management in dialogue, and formulate and disclose medium-term management plans, etc. that also reflect the content of dialogue

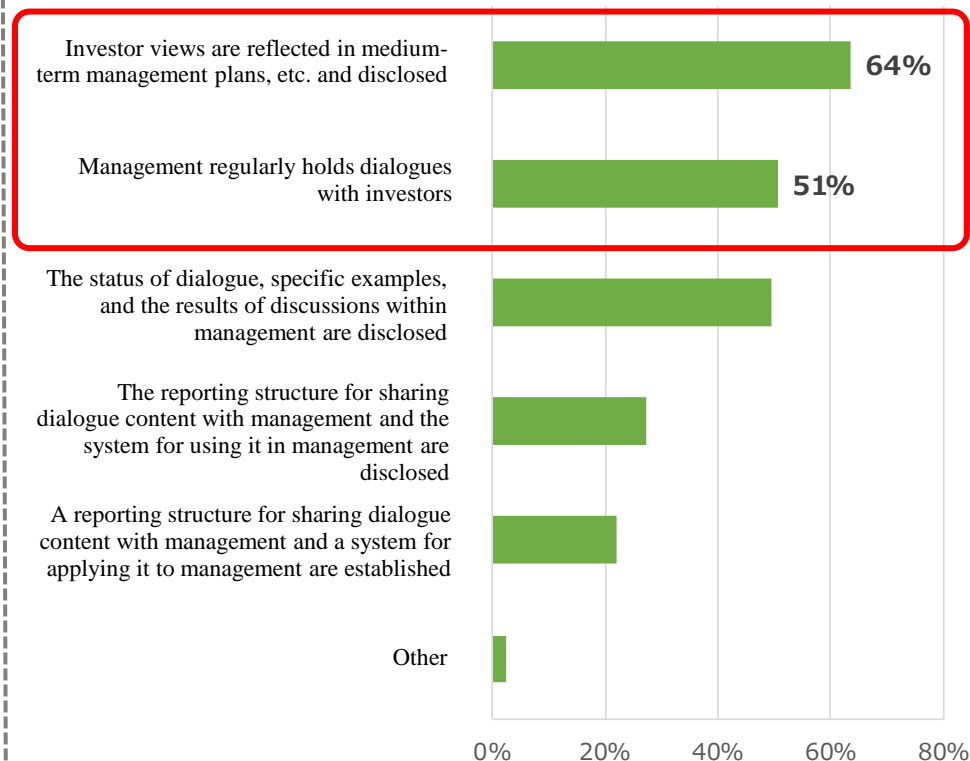
(Figure 1) 【For companies】  
Do you have a system in place to share dialogue content with management?



(Figure 2) 【For companies/investors】 (select up to three)  
What are the main dialogue-related issues regarding the systems and measures of your company / issues that investors perceive for companies



(Figure 3) 【For investors】 (select multiple)  
Initiatives by companies for which investors felt that dialogue content reached management or that management was involved in dialogue



\* Options are based on written responses of investors.

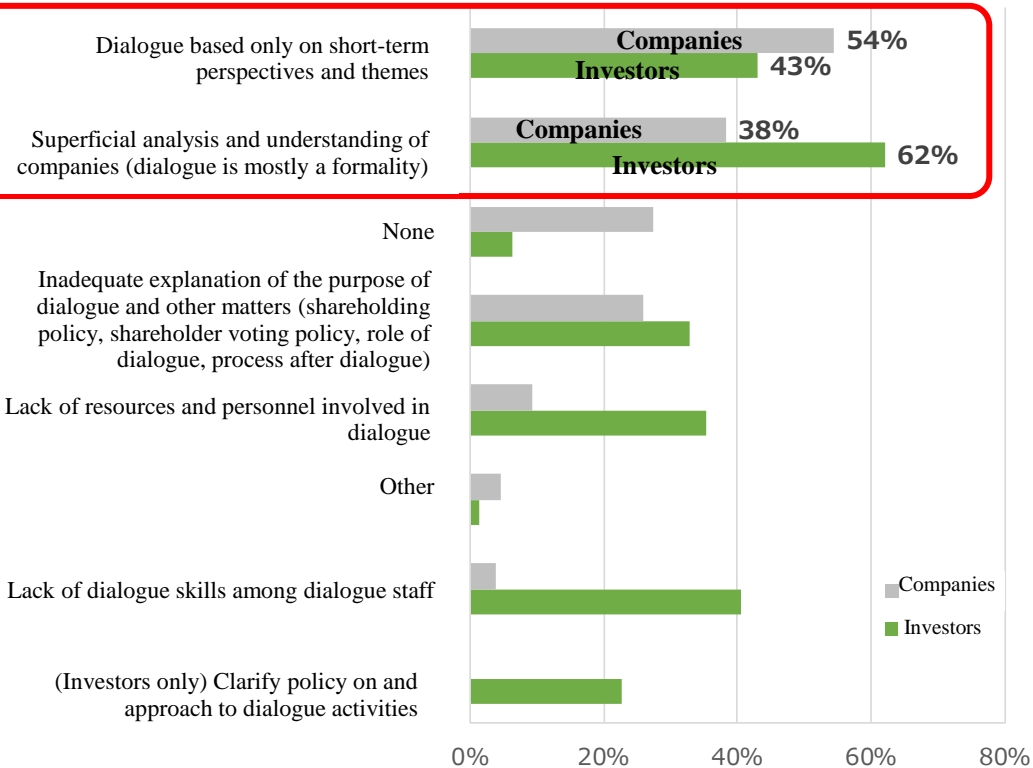
Recommendation (7): Promote dialogue based on in-depth understanding of companies from a medium- and long-term perspective and dialogue that contributes to the solution of issues facing companies (including financial strategies and profitability)



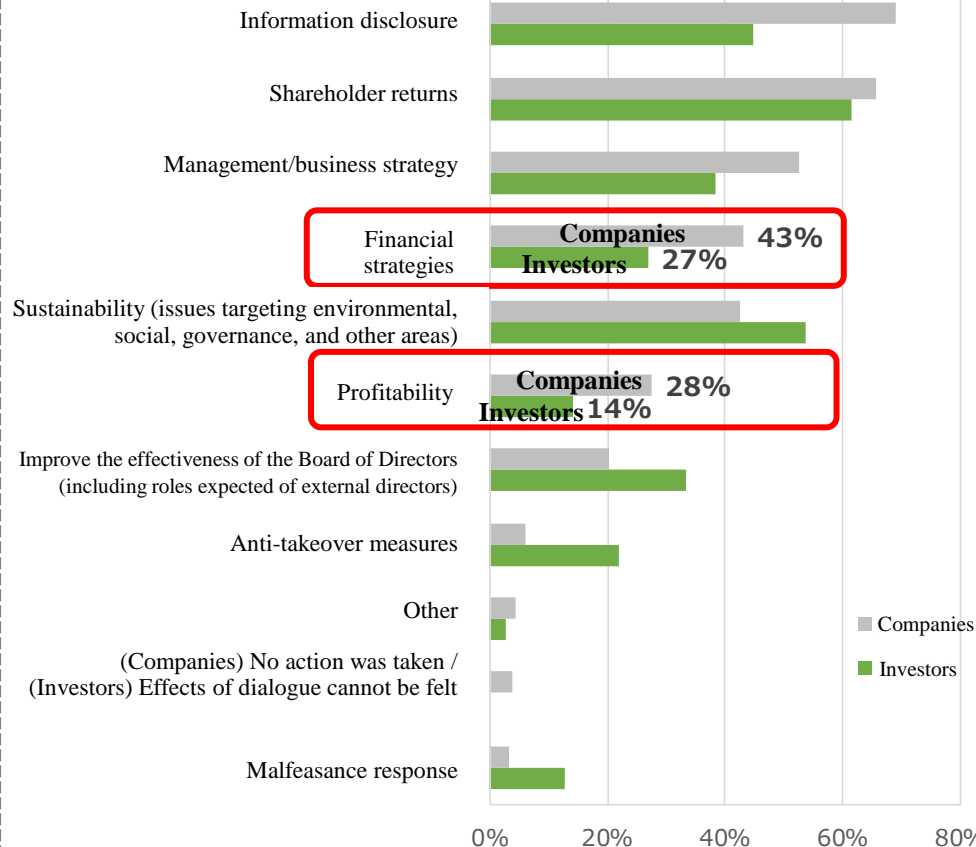
- Both companies and investors continue to feel that a key dialogue-related issue is that dialogue is only a superficial analysis and understanding of companies, and many companies continue to recognize the issue, more so than investors, of dialogue being based only on short-term perspectives and themes. (Figure 1)
- Looking at discussion themes for which companies took action based on dialogue, themes such as information disclosure and shareholder returns accounted for large shares of the responses. However, financial strategy and profitability represented only around 30%-40%, and only a small share of investors perceived changes in financial strategy and profitability. This suggests that investors may be not fully conveying their awareness of issues and requests to companies through dialogue. (Figure 2)

⇒ Promote dialogue based on in-depth understanding of companies from a medium- and long-term perspective and dialogue that contributes to the solution of issues facing companies (including financial strategies and profitability)

(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 2) 【For companies/investors】 (select multiple)  
 Themes for which action was taken or visible changes at investee companies were made, following dialogue

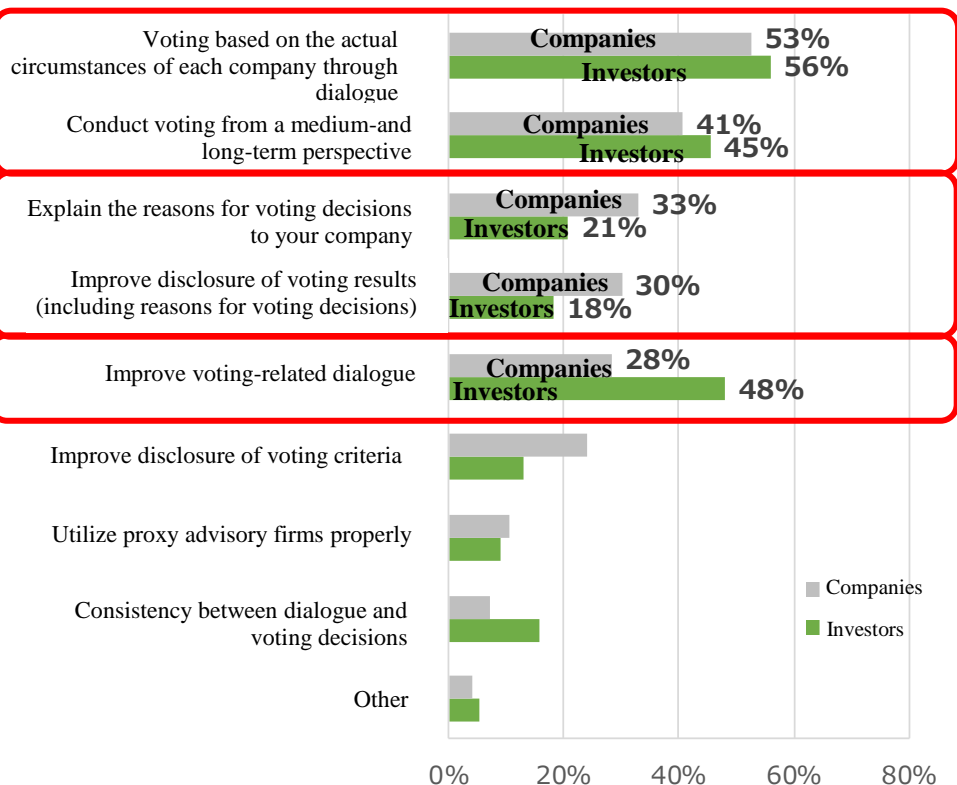


## Recommendation (8): Facilitate mutual understanding of AGM proposals and shareholder voting through dialogue

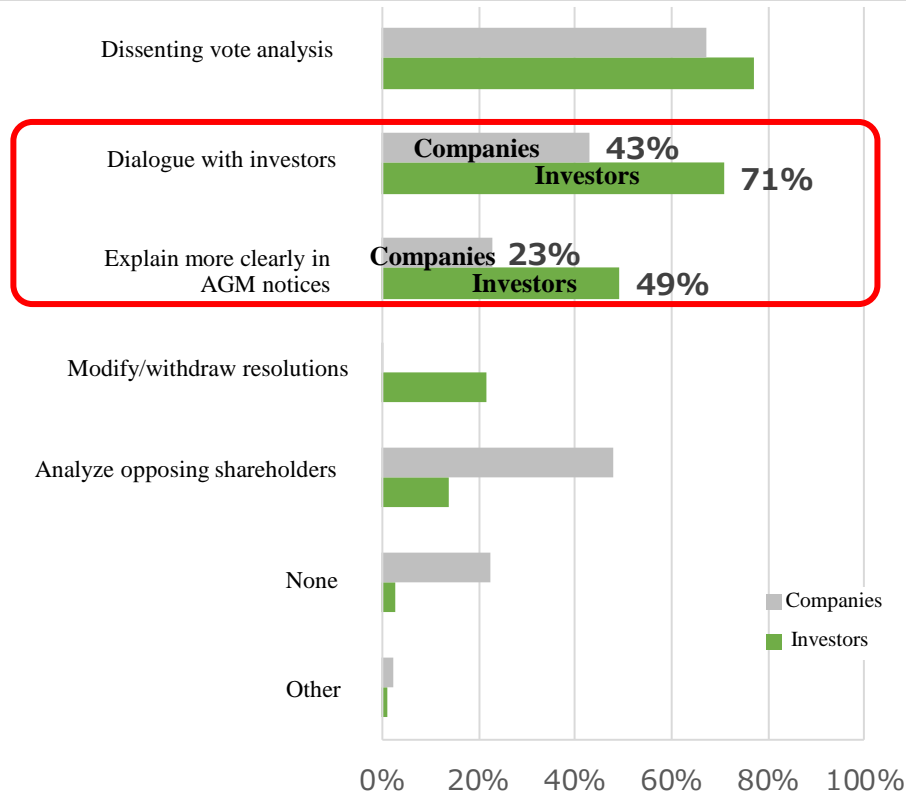
- Both companies and investors continue to recognize the need for future improvements in terms of voting based on the actual circumstances of each company through dialogue and conducting voting from a medium- and long-term perspective, and investors also feel the need to further “improve voting-related dialogue.” (Figure 1)
- Companies continue to expect investors to explain the reasons for voting decisions and improve disclosure of voting results. (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?**



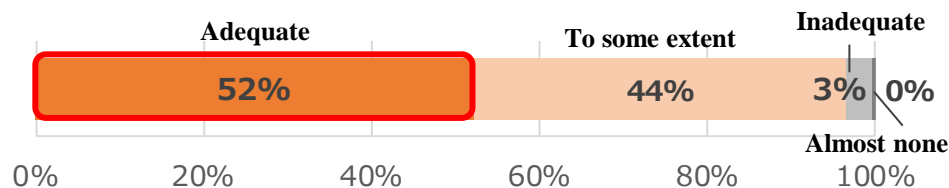
**(Figure 2) 【For companies/investors】 (select up to three)**  
**What measures do companies take to address prior resolutions that had substantial opposition? / What measures do you expect of companies?**



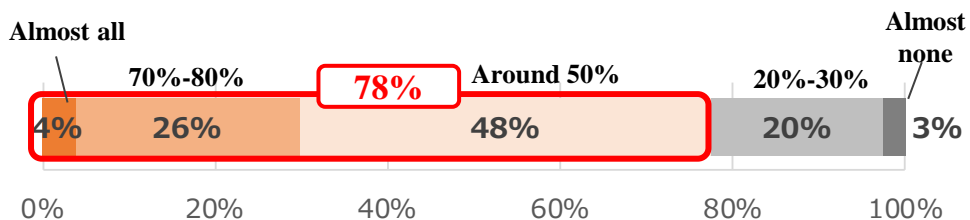
Recommendation (9): Provide further disclosure of non-financial information, including sustainability initiatives, through integrated reports and other means

- Regarding disclosure of sustainability initiatives, around 50% of companies responded that disclosure is adequate, and around 80% of investors recognize that more than half of companies provide adequate disclosure. This indicates that disclosure of information on companies' sustainability initiatives has progressed to some extent. (Figures 1 and 2).
  - Regarding disclosure, 81% of investors are requesting disclosure through integrated reports (Figure 3), and more than 80% of investors responded that they conduct dialogue on topics including sustainability initiatives based on the use of integrated reports. (Figure 4)
- ⇒ Encourage communication with investors by enhancing disclosure of non-financial information, including sustainability initiatives, through integrated reports and other means

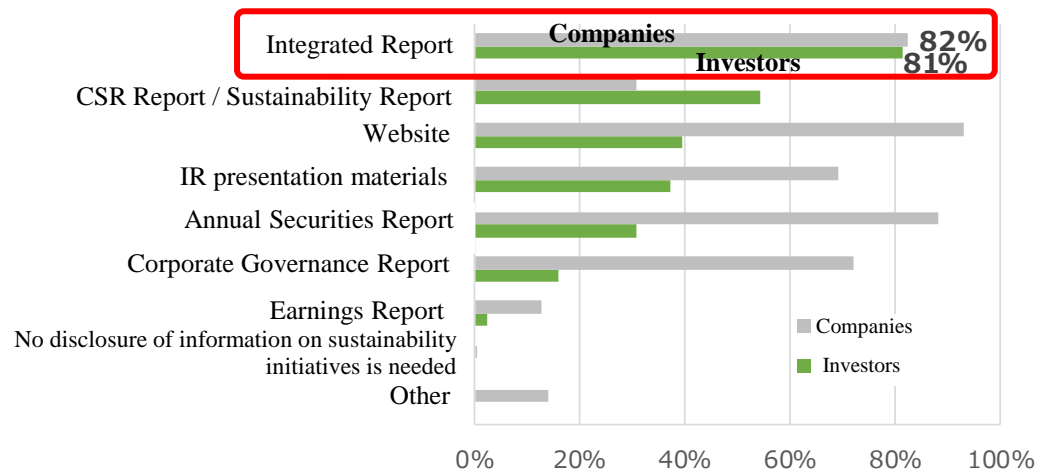
(Figure 1) 【For companies】  
Status of disclosure of information on sustainability initiatives



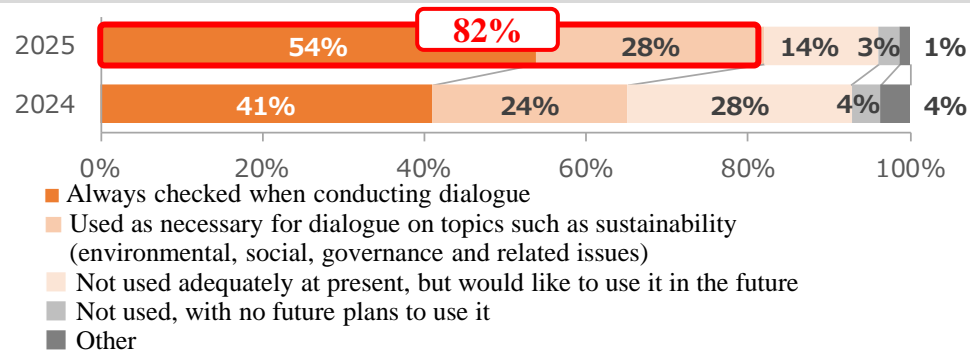
(Figure 2) 【For investors】  
Share of investee companies considered to provide adequate disclosure on sustainability initiatives



(Figure 3) 【For companies/investors】  
What kinds of media do you use to disclose sustainability initiatives? (select multiple) / Which would you like companies to use? (select up to three)



(Figure 4) 【For investors】 How integrated reports are used in dialogue

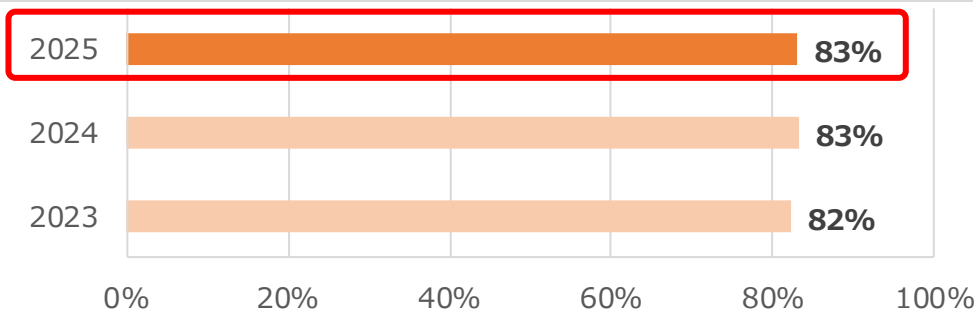


Recommendation (10): Formulate and execute sustainability initiative plans linked to management strategy as indicated in the medium-term management plans, etc.

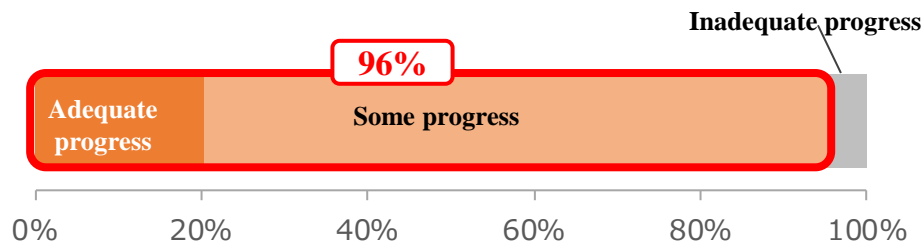
- 83% of companies have incorporated sustainability initiatives into their medium-term management plan, and 96% of companies report progress on their sustainability initiatives. (Figures 1 and 2)
- Regarding companies' sustainability initiatives, 62% of investors think the initiatives have an impact on increased returns over the medium to long term, but, at the same time, 27% of investors responded that companies' sustainability initiatives were not linked to management strategy for increasing corporate value as indicated in their medium-term management plans, etc., and so it is recognized that there is room for improvement. (Figures 3 and 4)

⇒ With the view that sustainability initiatives do affect corporate value, companies should formulate and implement sustainability initiative plans linked to management strategy as indicated in the medium-term management plans, etc., based on the social and economic environment

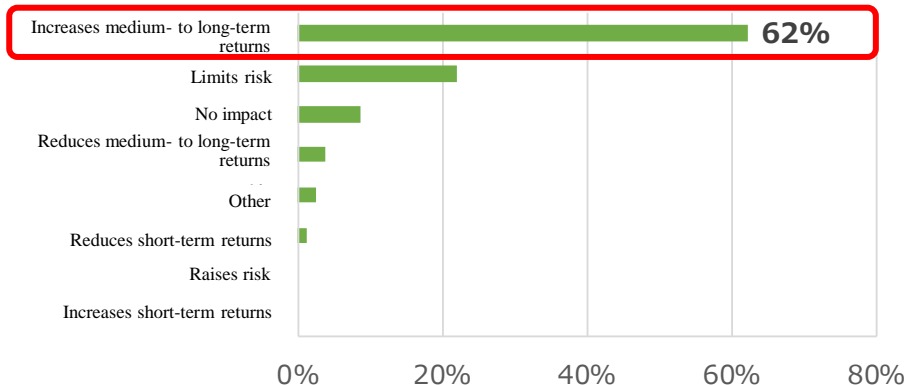
(Figure 1)【For companies】 Percentage of companies that responded to the question “Which management policies incorporate sustainability initiatives? (select multiple)” and replied that they incorporate sustainability initiatives in their medium-term management plans



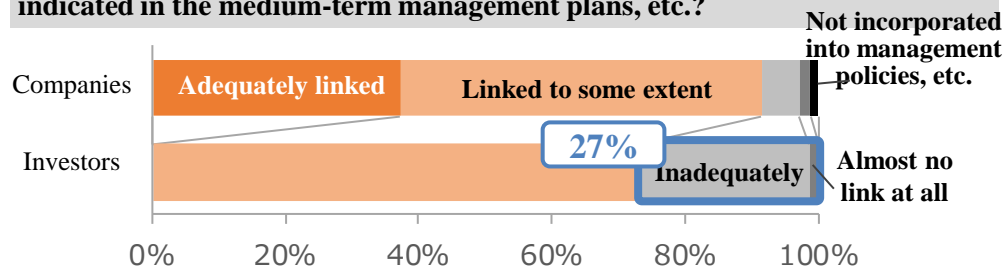
(Figure 2) 【For companies】 Status of progress on companies' initiatives to solve various sustainability issues incorporated into management policies, etc.



(Figure 3) 【For investors】 How does sustainability investment and finance (sustainability initiatives) impact investment performance?



(Figure 4) 【For companies/investors】 Are the sustainability initiatives of your company/Japanese companies adequately linked to management strategy for increasing corporate value as indicated in the medium-term management plans, etc.?

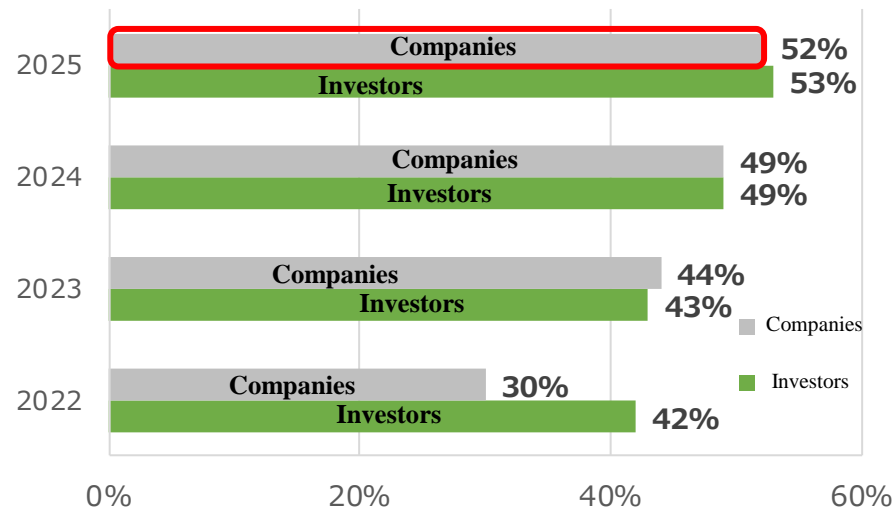


## Recommendation (11): Promote initiatives to foster respect for human rights

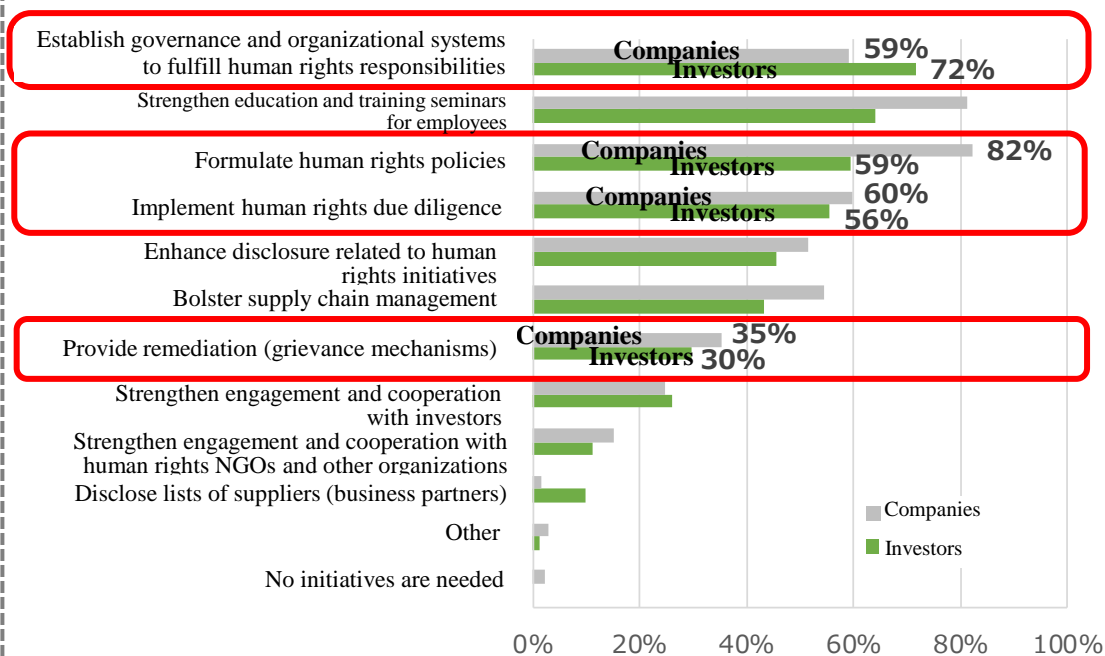
- Approximately 50% of companies cited respect for human rights as a major theme in their sustainability activities. (Figure 1)
- Around 80% of companies have formulated human rights policies regarding initiatives to foster respect for human rights as outlined in recommendations such as the United Nations’ Guiding Principles on Business and Human Rights. Meanwhile, 60% of companies have implemented human rights due diligence, 35% have provided remediation, and 59% have established governance systems, an initiative that is most highly expected of companies by investors, so there is still room for improvement. (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 sustainability activities (select up to five)?” and “What are the major themes in your sustainability 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?**

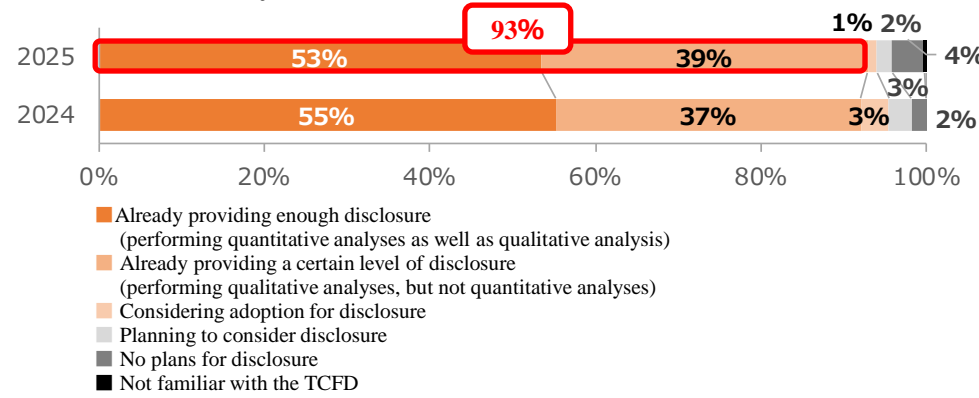


## Recommendation (12): Appropriately disclose climate change-related information and consider formulating and disclosing greenhouse gas reduction targets and roadmaps

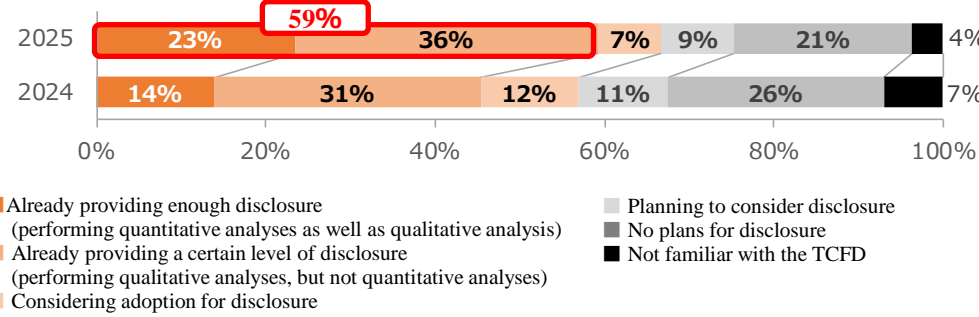
- Around 93% of companies have already disclosed climate change-related information based on TCFD recommendations, but only about 53% of these companies include quantitative analysis in their disclosure. There is room to improve the analysis that serves as the basis for disclosure. (Figure 1)
- Around 60% of investors responded that they use disclosure of climate change-related information for company evaluations or dialogue activities. (Figure 2)
- Around 10% of companies and slightly under 50% of investors have yet to formulate carbon neutrality targets to reduce greenhouse gases. (Figure 3) Only around 50% of companies and around 20% of investors have formulated or disclosed a roadmap. (Figure 4)

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

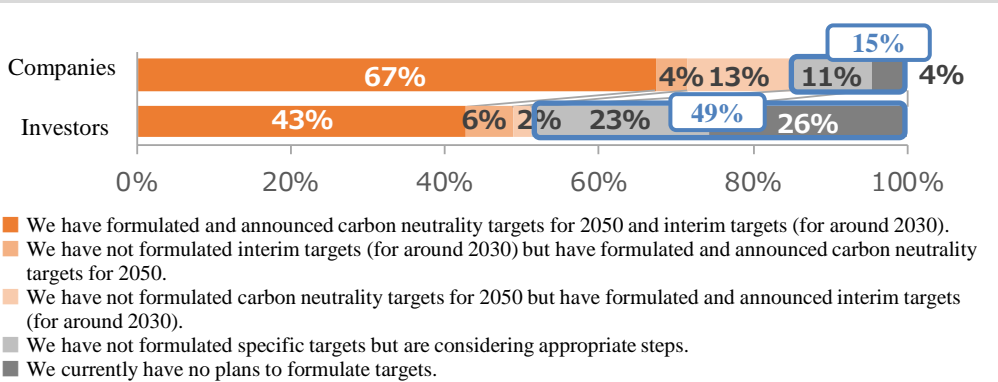
**(Figure 1) [For companies]**  
**Status of TCFD-style climate-related disclosures**



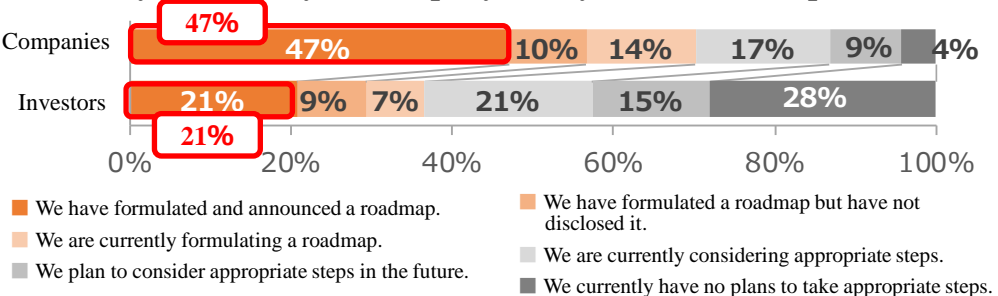
**(Figure 2) [For Investors]**  
**Are you considering using TCFD-style climate-related disclosures in the evaluation of firms or for dialogue?**



**(Figure 3) [For companies/investors]**  
**Greenhouse gas reduction targets for achieving carbon neutrality in 2050 at your company or in your investment portfolio**



**(Figure 4) [For companies/investors]**  
**Status of formulating or disclosing roadmaps for achieving carbon neutrality in 2050 at your company or in your investment portfolio**

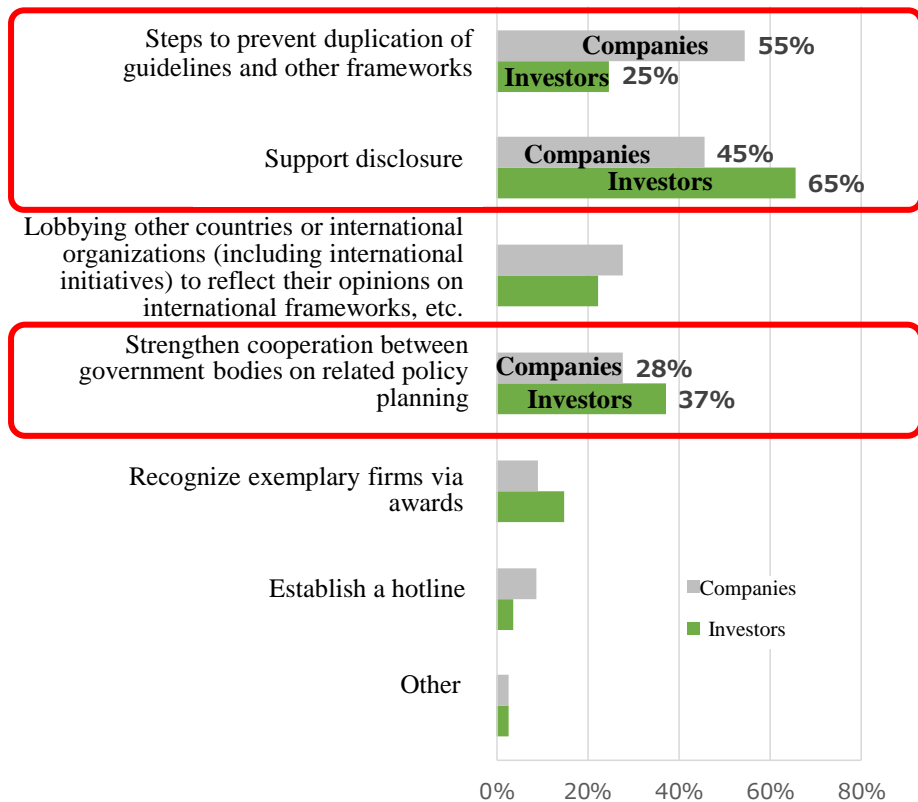


## Recommendation (13): Promote sustainability initiatives across government ministries/agencies

- Investors and companies both continue to expect the government to 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 sustainability initiatives and sustainability investment and finance by investors. (Figure 1)
- In addition, the Sustainability Disclosure Standards (SSBJ Standards) were issued in March 2025, and with the phased application of these Standards in the Annual Securities Reports to follow (Reference), there are also strong requests for support for corporate disclosure. (Figure 1)
- The government has bolstered various initiatives to promote sustainability initiatives, and cooperation between government bodies has also progressed. (Reference)

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

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



**(Reference) Guidelines across government ministries/agencies to promote sustainability initiatives, etc.**

<b>Study Group on Financing for the GX of Industry Measures Package</b>	Ministry of Economy, Trade and Industry
<b>Basic Guidelines on Climate Transition Finance</b>	Financial Services Agency
<b>Transition Finance Follow-up Guidance</b>	Ministry of the Environment
<b>Addressing the Challenges of Financed Emissions</b>	Ministry of the Environment
<b>Transition Strategies toward Nature Positive Economy</b>	<ul style="list-style-type: none"> <li>Ministry of the Environment</li> <li>Ministry of Agriculture, Forestry and Fisheries</li> <li>Ministry of Economy, Trade and Industry</li> <li>Ministry of Land, Infrastructure, Transport and Tourism</li> </ul>

**(Reference) Overview of the Sustainability Disclosure Standards (SSBJ Standards)**

- In March 2025, the Sustainability Standards Board of Japan (SSBJ) issued three final standards (collectively, “the SSBJ Standards”): “Application of the Sustainability Disclosure Standards,” “General Disclosures,” and “Climate-related Disclosures.”
- As for the timing of application, the standards are expected to become mandatory from the fiscal year ending March 31, 2027, in sequence starting with Prime Market-listed companies with larger market caps.

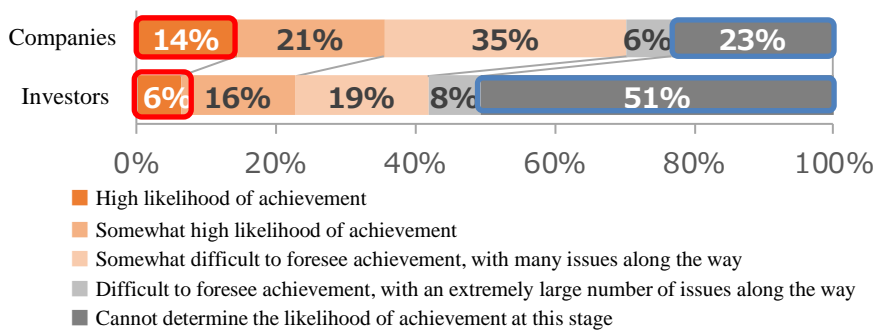
Standard	Overview
Application of the Sustainability Disclosure Standards	<ul style="list-style-type: none"> <li>Explains the overall picture of the Sustainability Disclosure Standards and the fundamental rules (Universal Standard).</li> <li>Must cover the same reporting period as the related financial statements and be reported at the same time.</li> </ul>
General Disclosures	<ul style="list-style-type: none"> <li>Theme-based standards that set forth disclosure requirements.</li> </ul>
Climate-related Disclosures	<ul style="list-style-type: none"> <li>Disclosure is required in four core content areas: Governance, Strategy, Risk Management, and Metrics &amp; Targets.</li> </ul>

# Recommendation (14): Further enhance policy-based support to realize carbon neutrality The Life Insurance Association of Japan

- Only 14% of companies and 6% 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 developing infrastructure that enables growth in renewable energy, proposing energy policies centered on renewable energy, building supply chains for next-generation energy, and formulating specific roadmaps. (Figure 2)

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

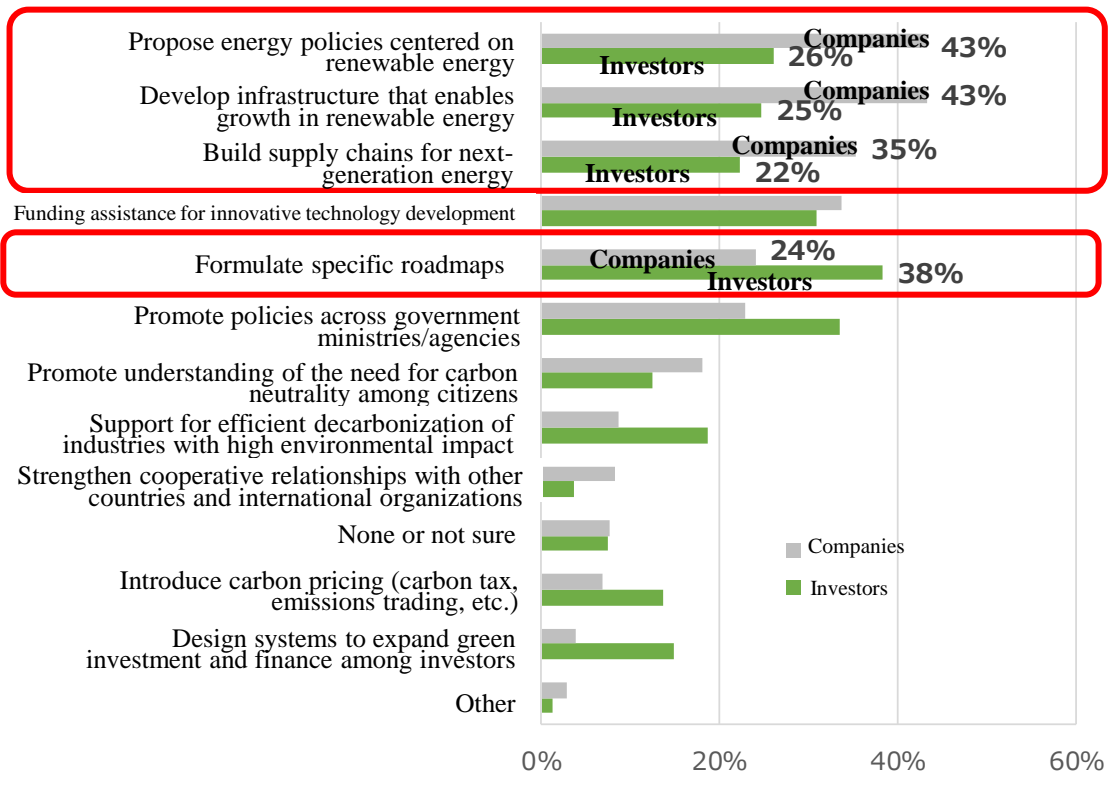
**(Figure 1) [For companies/investors]**  
Which of the following statements most closely describes your current position on the likelihood of achieving carbon neutrality in 2050 at your firm or in your firm’s investment portfolio?



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

- Cabinet approval of GX2040 Vision (Revised Strategy for Promoting Transition to a Decarbonized, Growth-Oriented Economic Structure) (Feb. 2025)  
Sharing the medium- and long-term direction of GX initiatives between the public and private sectors.
- Cabinet approval of the 7th Strategic Energy Plan (Feb. 2025)  
To be implemented in an integrated manner with the GX2040 Vision, in a way that is consistent with the government’s newly formulated target of a 73% reduction in greenhouse gas emissions in FY2040. Maximize the introduction of renewable energy as a primary power source, while aiming for a balanced power mix.
- Passage and enactment of the Amended GX Promotion Act (May 2025)  
Its main pillars are the legalization of the emissions trading system (GX-ETS) from FY2026, the specification of measures related to the collection of fossil fuel levies, and the development of financial support for the GX field.

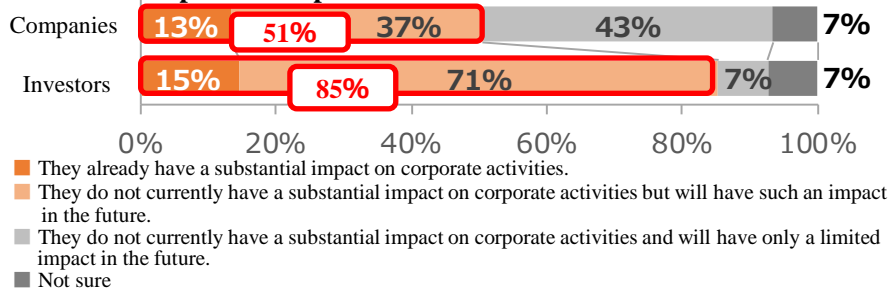
**(Figure 2) [For companies/investors] (select up to three)**  
What do you expect the government to do to achieve carbon neutrality in 2050?



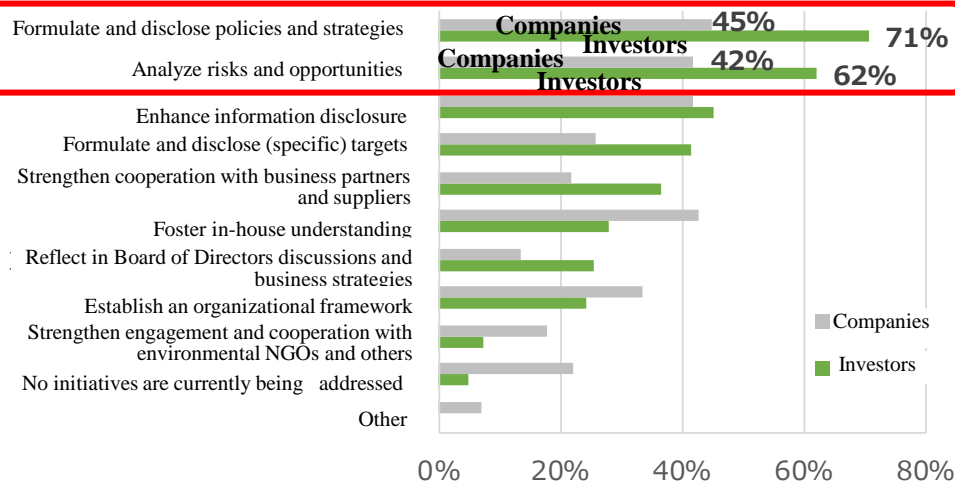
## 【Topics】 Trends around the themes of biodiversity and natural capital

- 51% of companies and 85% 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)
- It is assumed that disclosure will proceed in line with the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD), and consideration is also progressing on introducing international sustainability standards. In addition, the government has published the Roadmap for Transition Strategies toward a Nature Positive Economy (2025-2030) and stated that it will promote information disclosure and engage proactively in international rulemaking. (Reference)
- More than 60% of investors emphasize “Formulate and disclose policies and strategies” and “Analyze risks and opportunities” as initiatives that companies should undertake, while only about 40% 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**



**(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**



**(Reference) Taskforce on Nature-related Financial Disclosures (TNFD)  
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.

**(Reference) International Sustainability Standards Board (ISSB)  
Toward establishing additional disclosure standards related to nature-related risks and opportunities**

- The ISSB is aiming to publish an Exposure Draft on additional disclosure requirements for nature-related risks and opportunities by the seventeenth meeting of the Conference of the Parties to the Convention on Biological Diversity (COP 17), scheduled for October 2026.
- It has indicated that it will utilize the TNFD’s recommendations, metrics and guidance, including the LEAP (Locate, Evaluate, Assess, Prepare) approach, as necessary.

**(Reference) Publication of the Ministry of the Environment’s Roadmap for Transition Strategies toward a Nature Positive Economy (2025-2030) (July 2025)**

- This roadmap presents specific policy measures and expected actions for stakeholders to facilitate the transition to an economic structure based on natural capital, with the aim of achieving nature positive by 2030.
- It sets out three key points: aim to enhance corporate value and community value simultaneously, thereby contributing to regional revitalization; promote disclosures and expand nature finance to reflect the environmental value of natural capital in the economy; and strengthen the international competitiveness of Japanese companies through proactive participation in international rulemaking.

## Encouraging companies to further expand their initiatives and disclosures to increase corporate value

- From FY2017, the Stewardship Activities WG has continuously conducted collaborative engagement, in which participating life insurers work together to convey their awareness of issues to companies. In FY2025, engagement was conducted with a total of 150 listed companies (139 actual target companies excluding overlaps) on three themes: “management that is conscious of cost of capital and stock price,” “improving shareholder returns, considering the balance with financial and capital strategies and investment strategies, with an awareness of capital efficiency,” and “improving climate change disclosures.”
- Integrated disclosures, which had been implemented through FY2024, were excluded from the themes in light of the progress achieved to date through continuous efforts and the phased mandatory disclosure of sustainability information in compliance with SSBJ standards.
- With regard to “management that is conscious of cost of capital and stock price,” follow-up will continue in FY2025 after revising the screening criteria, considering that disclosures by Prime Market-listed companies progressed to a certain extent through initiatives in FY2024.
- For “improving shareholder returns, considering the balance with financial and capital strategies and investment strategies, with an awareness of capital efficiency,” dialogue is ongoing with an awareness of growth investments aimed at strengthening earning power.

### Equity market reinvigoration / Achieving a sustainable society

#### Management goals / financial strategy

##### Management that is conscious of cost of capital and stock price

###### Targeted: 23 listed companies\*

(\* Including companies to which requests were sent last fiscal year)

TSE Prime Market-listed companies with P/B ratios of less than 1, and TSE Standard Market-listed companies with P/B ratios of less than 1 and market caps of 100.0 billion yen or higher, for which disclosure of a response for action to implement management that is conscious of cost of capital and stock price, as required by the Tokyo Stock Exchange, could not be confirmed

##### Improving shareholder returns, considering the balance with financial and capital strategies and investment strategies, with an awareness of capital efficiency

###### Targeted: 41 listed companies

Companies with sound finances, a low ratio of investing CF relative to operating CF, and a dividend payout ratio of less than 30% for 5 consecutive fiscal years\*  
 \* The criterion was changed from a dividend payout ratio of less than 30% for 10 consecutive fiscal years to less than 30% for 5 consecutive years.

#### Improve disclosure of sustainability information

##### Improving climate change disclosures

###### Targeted: 75 listed companies

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

\* Including companies to which requests were sent last year

- (1) Perform a quantitative and qualitative analysis of risks and opportunities
  - (2) Requested to formulate and disclose a roadmap
- Encourage companies that have already made disclosures to periodically review and upgrade their analyses, etc.

###### Companies in about the top 20\* by greenhouse gas emissions (Scope 3)

\* Including companies to which requests were sent fiscal last year

Requested to disclose and enhance initiatives for reducing Scope 3 emissions

Dialogue by letter and meetings

Stewardship Activities WG (10 life insurers)

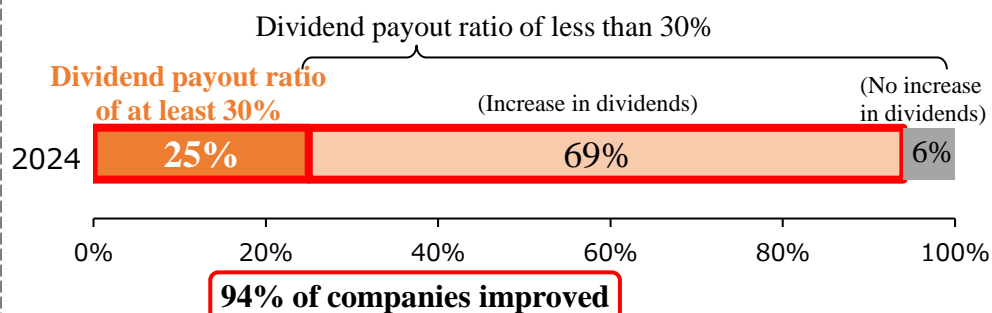
## Results of the collaborative engagement campaign in FY2024 (1)

- With regard to improving shareholder returns, of the 32 targeted companies, 25% met the standard of a dividend payout ratio of 30%. 94% of companies improved, including those companies that increased dividends even if not achieving the standard.
- For the new theme of management that is conscious of cost of capital and stock price, 45% of the 11 target companies began disclosing information related to this theme. The remaining 45% that continue not to make such disclosures are all companies listed on the TSE Standard Market. The remaining 10% (1 company) was delisted in March 2025.
- Looking at integrated disclosures, of the 32 targeted companies, 22% newly issued integrated disclosures.

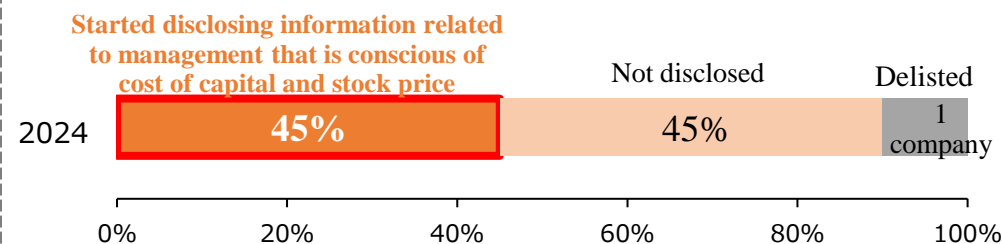
### Summary of activities of collaborative engagement in FY2024

Theme	Targeted companies	
Improving shareholder returns	32 companies	Companies with <u>sound finances</u> , a <u>low ratio of investing CF</u> relative to operating CF, and a long-term <u>dividend payout ratio of less than 30%</u>
[New] Management that is conscious of cost of capital and stock price	11 companies	Listed companies on the TSE Prime or Standard markets with market caps of 100.0 billion yen or higher and P/B ratios of less than 1, for which responses to the TSE request could not be confirmed.
Integrated disclosures	32 companies	Companies in the top 300 by market cap that <u>do not provide integrated disclosure of financial and non-financial information</u>
Improving climate change disclosures	71 companies	<u>Companies in about the top 50 by greenhouse gas emissions (Scope 1 and Scope 2)</u> , <u>Companies in about the top 20 by greenhouse gas emissions (Scope 3)</u>
Total	146 companies in total	(Number of actual target companies excluding overlaps: 135)

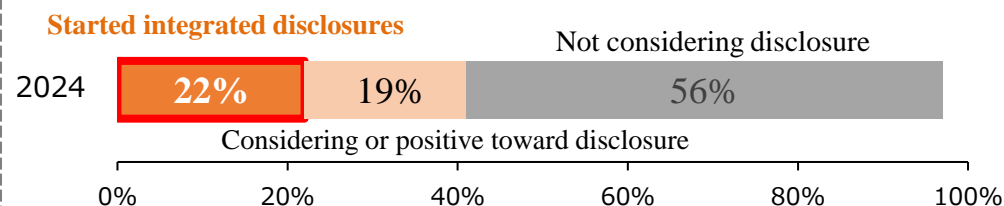
### Results of initiatives to improve shareholder returns



### Results of management that is conscious of cost of capital and stock price



### Results of initiatives to integrate disclosures

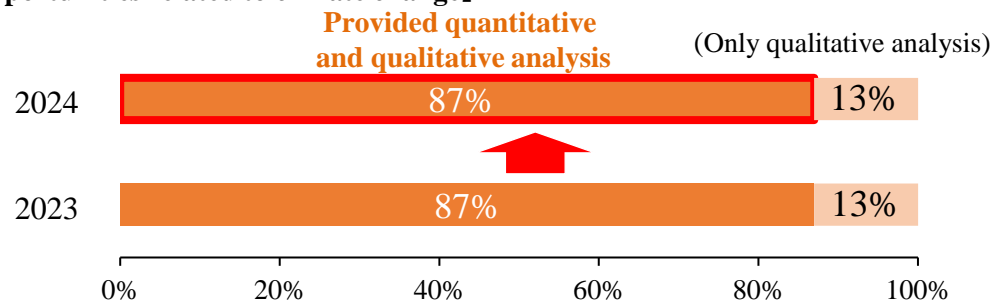


## Results of the collaborative engagement campaign in FY2024 (2)

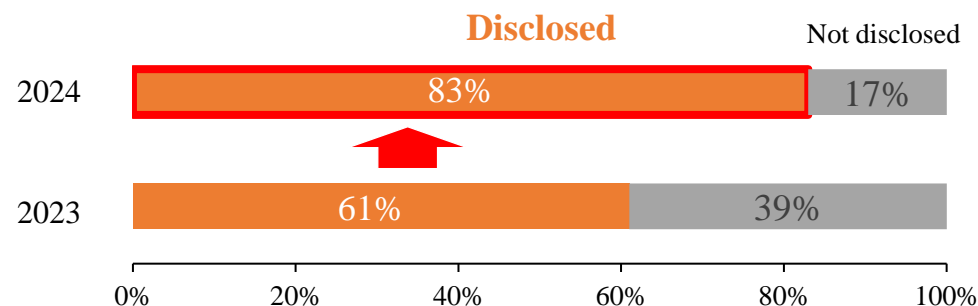
- In terms of improving climate change disclosures, of the 55 companies targeted for Scopes 1 and 2, all companies have already disclosed quantitative and qualitative analyses of management risks and opportunities related to climate change. Of these companies, 87% have performed quantitative analysis in addition to qualitative analysis.
- Of the 55 companies targeted for Scopes 1 and 2, 98% have formulated and disclosed roadmaps.
- Of the 24 companies targeted for Scope 3, 83% have already disclosed initiatives for reducing Scope 3 emissions. This marks a significant improvement from 61% in the previous fiscal year.

### Results of initiatives to improve climate change disclosures

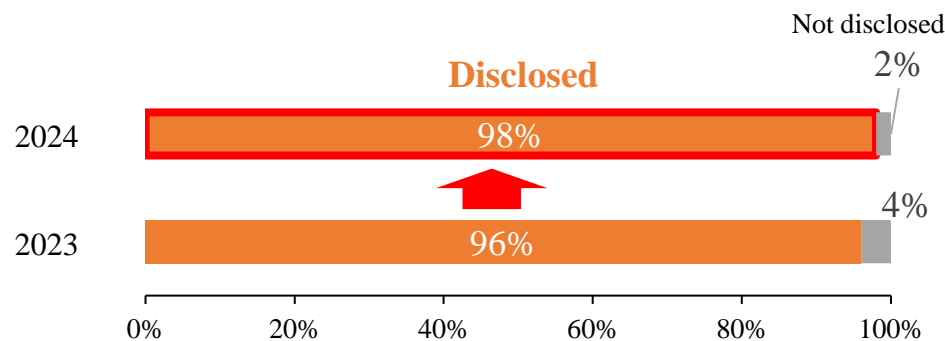
**【Scopes 1 and 2 Perform a quantitative and qualitative analysis of risks and opportunities related to climate change】**



**【Scope 3 Disclosure of efforts】**



**【Scopes 1 and 2 Formulate and disclose a roadmap for reducing GHG emissions】**



## 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 sustainability issues such as climate change (E) and human capital and human rights (S). In addition, through joint seminars with the ESG Investment and Finance WG, they are working to improve the quality of dialogue through initiatives such as refining dialogue methods, sharing sustainability-related insights, and deepening their knowledge.
- Additionally, WG participants took steps to expand stewardship activities beyond domestic listed shares, with initiatives centered on domestic corporate bonds.

### Activity details

		FY2025
		<b><u>10</u></b>
		(Number of WG participants)
Dialogue theme	• E (climate change) dialogues	10
	• S (human capital and human rights) dialogues	10
	• G (governance) dialogue	10
Manage, use, and disclose the results of dialogue	• Dialogue findings used in investment decisions	10
	• Externally disclosed the outcomes and results of dialogue	10
Expand the scope of stewardship activities	• Expanded stewardship activities to domestic corporate bonds	10
	• Expanded stewardship activities beyond domestic corporate bonds (to foreign shares and corporate bonds, etc.)	7
Enhance voting disclosures	• Disclose voting criteria	10
	• Disclose voting results and the reasons for voting decisions	10

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

- Each WG participant conducts seminars featuring guest instructors, as well as shares information and exchanges 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 the current fiscal year, each WG participant strengthened initiatives such as disclosing net zero emission targets and interim GHG emissions reduction targets in the investment portfolio and measuring outcomes.

### Activity details

### Comparison with the previous fiscal year

		FY2024 【21】	FY2025 【21】
<b>Approach</b>	<ul style="list-style-type: none"> <li>Clearly include the term “responsible investment and finance” in the basic investment policy</li> </ul>	13	13
<b>Addressing climate change</b>	<ul style="list-style-type: none"> <li>Disclose net zero emission targets in the investment portfolio</li> </ul>	16	18
	<ul style="list-style-type: none"> <li>Disclosed interim targets for investment portfolio and GHG emissions reduction</li> </ul>	15	17
	<ul style="list-style-type: none"> <li>Conducted quantitative analysis related to investment portfolio and climate change</li> </ul>	13	13
	<ul style="list-style-type: none"> <li>Endorse TNFD recommendations</li> </ul>	10	10
<b>Measures for biodiversity and natural capital</b>	<ul style="list-style-type: none"> <li>Disclose information according to TNFD recommendations</li> </ul>	8	9
	<ul style="list-style-type: none"> <li>Integration*1</li> </ul>	21	21
<b>Main ESG investment and finance methods being used</b>	<ul style="list-style-type: none"> <li>Engagement (Dialogue)</li> </ul>	17	18
	<ul style="list-style-type: none"> <li>Positive screening*2</li> </ul>	8	8
	<ul style="list-style-type: none"> <li>Negative screening*3</li> </ul>	21	21
	<ul style="list-style-type: none"> <li>Impact investing</li> </ul>	13	13
	<ul style="list-style-type: none"> <li>Measured outcome*4</li> </ul>	14	17

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

\*2: Select investment targets for specific stock, etc., from an sustainability standpoint

\*3: Exclude certain securities and other items from portfolio from an sustainability perspective

\*4: Include companies that have been measured but not yet disclosed

\* Figures for the previous year have been revised based on confirmed results (impact investing and measured outcome).

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