

June 12, 2018

Update: Our Engagement Activities on the Agenda “Materiality Identification and Disclosure”

(As of the end of May 2018)

(Provisional Translation)

Since January 15, 2018, IICEF and the five participants of its collective engagement program (Pension Fund Association, Sumitomo Mitsui Asset Management, Sumitomo Mitsui Trust Bank, Mitsubishi UFJ Trust Bank, and Resona Bank) have jointly conducted engagement dialogues with multiple listed companies on the “materiality identification and disclosure” agenda.

In addition to our interaction with the target companies, we have posted an article on our website about the contents of our letters, have made presentations in seminars in Tokyo and Osaka to explain our thoughts on the agenda to companies, investors, etc., and have exchanged views with various parties in and outside of Japan.

Summarized below are outlines of our engagement activities on the agenda and FAQs at the meetings with the target companies, seminars, etc.

1. Outlines of our engagement activities

(1) Letters and meetings

For each of the target companies, we first contacted the IR section to inform that we were going to send a letter to the company describing the common views of our program member investors on the agenda. Then the copies of the letter were sent to the company’s top management and board members/senior officers in charge of the ESG materiality-related matters. IICEF directors had a briefing session with people from the company’s IR section, etc., before setting up an engagement meeting attended by representatives of both our program member investors and the target company.

The meeting participants from the target company side included the top management, board members/senior officers in charge of corporate planning/IR/CSR sections, as well as staff members of various functions. From the investor side, managers in charge of stewardship activities and asset management attended the meeting. They sat together in a meeting room and had intensive

engagement dialogues regarding the agenda, with facilitation made by IICEF directors. Following the lead investor's brief presentation of the common views, other investors put additional remarks and touched upon their specific opinions as well. The company management explained their views on the agenda, showing examples of their related activities. The Q&A session was bilateral.

Having an engagement meeting once is not the end of the dialogue process. Going forward, we will keep our eyes on how the target company would make progress in its ESG materiality disclosure. We will restart the engagement dialogue with the same company with the same agenda, as appropriate.

For the moment, we do not plan to disclose the specific target company names, as well as the total number of the target companies we have approached, with respect to this agenda.

(2) Feedback from the target companies

Regarding our common views on the agenda, we saw no clear objection from any of the target companies we met. Some of them stated that they had already been considering advanced disclosure of their ESG materiality issues, to be released in the timing of their next medium-term management plan announcements, for example. We also receive feedback comments that they could get much better understanding of what investors think, and what they want to know, about the agenda, as the result of the engagement meetings with us.

(3) Feedback from the program member investors

It appeared that in-depth discussions among the investors about the agenda were very fruitful for each member. Most investors said that they could realize that other investors had similar awareness and concerns regarding the agenda. Also, most investors found the engagement meetings very helpful, as they could learn more about the target companies' views, their top management's mindset and built-in corporate culture, the companies' actual commitment and concerns, and their future strategies, regarding the agenda. All these led to their deeper understanding of the target companies.

2. FAQs from the companies at the engagement meetings, seminars, etc.

(1) What do you think is an important ESG materiality issue for our company (this sector)?

Answer: We may have some ideas in mind, based on our knowledge of the practices of your competitors as well as overseas companies in the similar sector, but they are just hypotheses. There should be many considerable ESG materiality issues, depending on time horizon and presumptive

scenarios. What we would like to achieve is not to check if our hypotheses are “correct answers” from the management’s point of view, but to listen to the management’s recognition of the matter, learn how the management team would deal with those materiality issues, and have in-depth discussions. All these are for deeper mutual understanding between the management and the investor sides.

(2) We properly recognize our materiality issues in-house. Do we really have to disclose them?

Answer: If there is no disclosure, we are not sure that you recognize the issues fairly. Maybe you are not inclined to disclose the materiality issues you recognize, just because you have not finalized your countermeasures to overcome them. If so, we still would like you to explain what you believe your materiality issues are. Then we are happy to accept your statement such as “discussions on the countermeasures are still under way.”

(3) Can you show us the “best practice” examples of materiality disclosure?

Answer: Looking around in and outside of Japan, there are some cases with partially excellent disclosure, but we are not aware of any “full mark” case. Currently many companies in the world are seeking for better way of disclosure, we believe. Also, most important issues for a company can be totally different from those for another company in the same sector – they should depend upon management time horizons and directions of corporate strategies. Rather than looking for other companies’ cases as benchmarks, we would like you to work hard to come up with your materiality disclosure which is differentiated from others, taking into consideration the company’s position in the current environment.

(4) While ESG information benders require many pieces of ESG-related information, investors demand concise integrated reporting. What can we do?

Answer: Our suggestions are that you may post all the relevant items such as ESG policies and initiatives, ESG-related data, etc., on your web site, and that you just put a brief summary of ESG information that the management deems important, in the integrated report. A compact integrated report helps investors to understand what the management believes are material, how the management is going to respond to the challenges, in a straightforward way.

(5) We cannot tell what happens in 20 years or 30 years from now. Shall we really discuss such a distance future? We have clarified our KPIs in-house, but we do not want to disclose them. Do we need to disclose them?

Answer: You should not necessarily regard your message on the matter as a commitment by the current management team. We just would like to discuss with you the company’s long-term visions and policies related to the agenda. Naturally, we believe that the materiality issues identified can be

changed in future, due to developments in the business environment. The same holds true for KPIs. You should not necessarily regard them as commitments.

We will keep you updated with any major development in our collective engagement activities, in a timely manner. Suggestion, opinions and inquiries are welcome.

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