Asset Management One International‘s (AMOI) purpose is ‘Creating a sustainable future through the power of investment’ and fully integrates sustainability risk into investment decision making. We believe it is our fiduciary duty and responsibility to help our clients and beneficiaries achieve their financial and non-financial objectives, to maintain a decent standard of living when they retire and to contribute to a sustainable economic growth through efficient allocation of capital. AMOI is strongly committed to acting and performing as a good steward, to preserve and enhance value for the assets entrusted by our clients. Through integrating material ESG considerations and active engagement with investee companies, we aim to achieve the risk-adjusted return objectives for our clients over the long-term, while at the same time contributing to the environment, economy and the wider society.

AMOI also considers the impact of its investment activity on the wider world. AMOI considers these across all investment funds, via quantitative and qualitative data analysis.

What is the difference between sustainability risk and principal adverse impact?

AMOI considers sustainability risks to be an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. AMOI integrates sustainability risk identification and assessment into its investment decision making; our approach to stewardship is based on the belief that we can provide long-term value to our clients via effective consideration of ESG. We assess and monitor sustainability risk throughout the investment management lifecycle.

The term “principal adverse impact” refers to the potential negative impact that investments may have on sustainability factors such as the climate, environment, and society. For instance, if a financial market participant invests in energy companies that extract fossil fuels, this will negatively impact the environment by generating greenhouse gas emissions and contributing to global temperature increases.

What is AMOI’s approach to identification of principal adverse sustainability impacts?

While AMOI considers key sustainability issues as part of its wider investment and engagement activity, at this time, AMOI is still considering how best to approach the identification and prioritisation of principal adverse impact on sustainability factors as set out in Article 4 of the SFDR. This is to ensure that the approach taken provides meaningful, accurate disclosure in line with client expectations. AMOI will look to agree an approach in accordance with the finalised RTS, which is expected to enter into force in 2022.

Currently, in line with our wider ESG strategy and external commitments, we have identified key themes across our stewardship and engagement activity, including the work we do to minimise the impact of investment activity on the environment and wider society:

These include:

- Climate change
- Deforestation
- Water resource
- Biodiversity
- Pollution & Waste Management
- Energy Resources
- Diversity & Inclusion
- Labour standards
- Product quality
- Local community

- These themes directly shape how we select potential investee companies, and the actions we take to minimise potential negative impact of investment activity.

How is sustainability risk assessed at the point of selection?

- We use qualitative and quantitative assessments to identify sustainability risk of investee companies, both at the point of selection, and throughout the investment management lifecycle
- Our investment managers utilise ESG materiality analysis during the selection and due diligence processes to identify areas of concern and assess significance
    - We combine an assessment of ESG issues with conventional financial analysis in the context of an investee company's location and industry, to ensure we fully understand potential impact prior to selection
    - For instance, any investments made in the manufacturing industry are subject to additional scrutiny of supply chains to minimise the risk of potential poor employment practice. AMOI also considers the wider context of an investee company's industry and potential strategy to fully understand potential sustainability risks and opportunities
    - This assessment is based on various external data sources and ratings, as well as the input of the investment team to produce a cohesive view
    - In addition, our Responsible Investment team utilises third party data to assess the emissions associated with our investment portfolios throughout the investment management lifecycle, which enables us to identify any emerging trends. This data directly feeds into our engagement activity, as outlined below

AMOI also utilises clear minimum standards to reduce the likelihood of sustainability risk impacting financial returns and any environmental or social factors:

- We exclude any companies associated to the manufacture of cluster munitions, anti-personnel mines, chemical or biological weapons from our investment strategies
- We expect all investee companies to comply with local laws and regulations
- We also set out specific expectations for investee companies that govern our approach to proxy voting:
    - As well as ensuring robust corporate governance, firms should be able to demonstrate a medium to long term perspective on environmental and social issues
- We also encourage investee companies to disclose climate-related risks and opportunities in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework
- By setting out these expectations, AMOI reduces the likelihood of negative impact on both financial returns and environmental and social factors

    - If we detect potential breaches of these standards, we will commence targeted engagement activity to support investee companies in resolving issues

How do we manage sustainability risk throughout the investment management lifecycle?

- Consideration of sustainability risk extends beyond selection; AMOI actively monitors investee companies on key ESG factors via qualitative and quantitative sources to identify and assess emerging sustainability risk
    - We use specialist ESG data sources, to identify changing trends, such as increased carbon intensity, or other environmental impacts
    - We also monitor companies' public disclosures, such as TCFD reporting to understand their potential sustainability impact, and their potential vulnerability to sustainability risk
    - We pay close attention to the consistency between companies' qualitative sustainability reports and other financial or regulatory disclosures to create a holistic view of their risk profile
- In addition, AMOI also actively engages with investee companies where relevant, to encourage improvement on key ESG issues, which both improve long term outcomes for clients and wider society, but also reduce the potential impact of sustainability risks on returns
- It is our belief that well-governed companies, supported by actively engaged shareholders with a long-term perspective, will deliver superior risk-adjusted returns over the long term
- Via our engagement activity, AMOI aims to form an in-depth understanding and a holistic view of the investee companies
- The purpose of engagement is to protect and improve long-term value for clients and beneficiaries, by encouraging companies to achieve sustained profitability and growth
- We believe that engagement is most effective as a two-way dialogue based on mutual trust and understanding, and that a "one-size-fits-all" approach does not support long term benefits for clients and wider society
- Instead, we tailor our approach based on specific issues, while using our structured programme to monitor progress and measure outcomes
- Asset Management One Co., Ltd (AMO), our investment advisor, has developed a proprietary eight milestones system to measure and monitor the engagement progress
    - These eight milestones outline steps and objectives for each ESG issue at each company engagement, to ensure that engagement activity is in line with our responsible investment principles, and wider investment strategy
    - This often involves individual meetings with senior executives, board members and non-executive directors (which we also promote as a best practice and strongly encourage companies to provide shareholders such board access, especially in the markets where this is not yet a widely accepted practice)
    - We also aim to exercise our votes at shareholder meetings to enforce and reflect the progress of our engagement and the investee company's direction of travel
- AMO also participates in collective engagement, with a focus on addressing systemic issues via formal and informal investor groups
    - This includes participation in International Corporate Governance Network (ICGN), Asian Corporate Governance Association (ACGA) and the UN-supported Principles for Responsible Investment (PRI)
    - AMO are also one of the few Japanese asset managers committed to the global investors' engagement initiative "Climate Action 100+" (CA100+) since its initial launch in 2017, actively participating in the ongoing collaborative engagement with a selected number of companies globally

    - In participating in collaborative engagement activities, AMO speak for ourselves and remain alert to any potential conflicts and related legal and regulatory rules in each market

What responsible business codes do we adhere to?

- As outlined above, AMO, our investment advisor and parent company, is committed to the Principles for Responsible Investment (PRI), which sets out clear expectations for responsible investment activity. AMOI is a wholly owned subsidiary of AMO.
- In addition, Asset Management One Co., Ltd (AMO), our investment advisor and parent company, recently committed to the Net-Zero Asset Managers Initiative
    - As a group of leading asset managers, AMO aim to transition our investment portfolios to net-zero GHG emissions by 2050
    - This is directly aimed at article 2.1c of the Paris Agreement, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, as part of efforts to limit temperatures rises to 1.5^{O}C above pre-industrial levels

How do we support our people to integrate sustainability risk into investment activity?

- AMOI expects all investment staff to continually consider sustainability as part of their role
- Because AMOI's investment activity includes a wide range of investment mandates, strategies and approaches, we believe it is not appropriate to have a standardised approach to monitoring the performance of investment staff on ESG issues
    - Instead, tailored objectives on ESG considerations are set as appropriate for relevant staff
        - For instance, staff involved with our Impact portfolio will have specific objectives in line with the product's sustainable investment objectives
        - Our Responsible Investment (RI) team have specific objectives set out, which include contributions to the intelligent voting activities, ESG thematic research and ESG integration at AMOI, communications with clients and other stakeholders, public policy advocacy as appropriate
            - Performance against these objectives will directly feed into performance reviews and eventual compensation
        - All fund managers and financial analysts are expected to integrate material ESG considerations into their investment activity as part of our firm wide policy
        - As part of our performance evaluation approach, compensation is based on a combination of fund performance and overall contributions to the organisation's objectives, which include its ESG strategy
    - In addition, we expect investment professionals to contribute to firm wide ESG initiatives, and to further their knowledge via informal and formal training
        - Our RI team proactively distributes insight across our investment teams, tailored to respective portfolios
        - We also arrange external training as appropriate, including for new graduates