

MUFG Japan All-Cap Positive Leaders Fund

Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector (“SFDR”)

SFDR Website disclosure based on SFDR RTS (art. 31 – 44)

(a) Summary of the SFDR Disclosure:

(b) No sustainable investment objective

MUFG Japan All-Cap Positive Leaders Fund promotes environmental or social characteristics. No commitment to make sustainable investments as per SFDR Regulation.

(c) Environmental or social characteristics of the financial product

The investment philosophy of MUFG Japan All-Cap Positive Leaders Fund is that companies which best contribute to solving environmental, social and governance issues (ESG) also display sustainable earnings growth.

In this section, a detailed description of the Sub-Fund’s Investment Universe and our ESG Scoring Methodology and Indicators is presented.

(d) Investment strategy

We combine financial analysis with an assessment of ESG criteria to select investments among listed Japanese equities, by delineating a specific exclusion policy and assessing good governance practices of investee companies.

A detailed description of our investment strategy is provided below.

(e) Proportion of investments

All investments of the Sub-Fund are made for the purpose of attaining the environmental and social characteristics promoted.

(f) Monitoring of environmental or social characteristics

We monitor the attainment of the Sub-Fund’s characteristics on regular basis.

Below an explanation of how the monitoring system is implemented and maintained is offered.

(g) Methodologies

We consider ESG Score and materiality of ESG issues of our investee companies.

As detailed in this section, the attainment of the environmental and social characteristics of the product is monitored by looking at the ESG score of each investment on a quarterly basis.

(h) Data sources and processing

We leverage on multiple external data providers to attain the environmental and social characteristics promoted by MUFG Japan All-Cap Positive Leaders Fund.

More explanations on our data sources and processing are provided below.

(i) Limitations to methodologies and data

Our proprietary Scoring relies on few external ratings. Currently, the rating methodologies and data available from external providers and companies' disclosures are deemed appropriate for the ESG investment philosophy and scoring process of the Sub-fund, which can therefore attain its objective to invest in the stocks with the best ESG scoring, as described in 'Environmental and social characteristics of the financial product'.

Further details are included in this dedicated section.

(j) Due diligence

Due diligence is carried out during the stock selection process based on four areas, after the identification of stocks with the best ESG scores. We consider the Business model, Business sustainability, Resolution of ESG issues, and Corporate governance by our investees.

(k) Engagement policies

Engagement with investee companies is at the core of the Sub-fund's investment process.

We consider competitive advantage, management capability, strategy, and ESG management and approach of our investee companies.

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment.

The financial product does not commit to make a sustainable investment as defined in article 2(17) of Regulation (EU) 2019/2088 ('SFDR') or article 3 of Regulation (EU) 2020/852 ('Taxonomy Regulation').

Environmental or social characteristics of the financial product

The investment philosophy of MUFG Japan All-Cap Positive Leaders Fund (the 'Sub-fund') is that companies which best contribute to solving environmental, social and governance issues (ESG) also display sustainable earnings growth.

The Sub-fund intends to invest in listed Japanese equities among the selected research universe, that rank best according to our proprietary ESG scoring methodology, beyond showing a great potential for financial returns. ESG scoring allows to give an overview of the investments non-financial performance and to integrate the evaluation of how companies manage environmental, social and governance issues under a single metric. By investing in companies which display the best ESG scores, the Sub-fund aims at holding investments that best contribute to a sustainable society through their environmental and social performance as well as their related policies and management systems.

Our proprietary ESG assessment encompasses a series of sustainability indicators. Below is a table with a non-exhaustive list of sustainability indicators, grouped per material topics.

Category	Materiality	Indicator / Evaluation item
Environment	Policy & management system	Environmental policy
		Environmental management system
	Climate change	Climate-related risks and opportunities influenced organization's strategy and/or financial planning
		GHG reduction programme
	Circular economy / natural capital / pollution	Water management programmes
Waste generated per sales		
Social	Health & safety	Lost time incident rate (LTIR) trend
		Occupational health and safety management system
	Human rights & diversity	Freedom of association policy
		Collective bargaining agreements
	Supply chain	Policy against child labour
		Human rights due diligence program
Human capital development		
Governance	Governance system	ESG governance
		Board diversity
		Bribery & corruption policy
		Whistle-blower programmes

	Risk management	Consumer privacy data protection policy
	Disclosure	Verification of ESG reporting

Note: This set of indicators is intended to represent a high-level overview of indicators that may be relevant to certain investments in certain industry sectors and is provided for general illustrative purposes only. Actual reporting will differ based on the facts and circumstances relevant to each specific investment, and there can be no assurance that all indicators included in the example above will be relevant to all or any investments

Investment strategy

Our investment team (the “Investment Team”) combines financial analysis with an assessment of ESG criteria to select investments among listed Japanese equities. After identifying potential investments based on financial criteria, the Investment Team and sector analysts follow a process to ensure that the best candidates are identified in terms of financial, organizational and ESG criteria:

- 1) The Investment Team proceeds to an ESG screening of the companies in the research universe, using our proprietary ESG scoring methodology, as described in ‘Methodologies’. Companies obtaining an ESG score below our set threshold are systematically excluded from the list of investment candidates, and companies obtaining the 200-250 best ESG scores are retained for further analysis. The ideal objective is to invest in candidates which rank best in terms of ESG performance.
- 2) Further field work research is then conducted on the ESG Sustainability universe by Investment Team and sector analysts in order to assess their Business model, Business sustainability, Resolution of ESG issues, and Corporate governance. This contributes to identifying companies that are able to achieve earnings growth through the resolution of ESG issues.
- 3) Finally, the Investment Team engages with the management teams of companies in the final pool of investment candidates to qualitatively assess ESG management & approach, Growth strategy, Financial strategy, Corporate governance, and Disclosure policy.

Based on the results of this process, companies are selected to build the portfolio of equities. Every quarter, ESG scores of the portfolio companies are reviewed. Companies that fall under the set threshold are identified and corrective actions are taken.

In case one of the investee companies obtains a score below 50, or drops significantly after its score has been updated, the Investment Team engages with the company to promote the improvement of the items which affected the score. The Investment team expects responsiveness from its investees, and if no further action is taken by the company or if no improvement is registered in its score after a series of engagements, the Investment Team will consider divestment.

We established a Responsible Investment Meeting under the Sustainability Committee which consists of the CEO, Executives, and Division Managers. The Responsible Investment Committee is composed of the business head of Asset Management Business and other investment related division managers. The Responsible Investment Committee will oversee all ESG initiatives in the Asset Management Business as a whole and will discuss a variety of ESG activities and report them to the Executive Committee and Board of Directors through the Sustainability Committee.

The Investment Team is responsible for determining that invested companies are engaged in good governance practices. In support of this, the Investment Team is completing a good governance practices assessment of investee candidates throughout the portfolio construction of the Sub-Fund, the below list is non-exhaustive and is mentioned for information only:

- **Sound management structures** – the following non-exhaustive indicators are considered: ESG governance, Board leadership, Board independence, Board experience, Board diversity, Audit committee structure, Independent nomination committee under the board, Independent remuneration committee under the board, Boards with more than one-third independent directors, Cross-shareholdings, and Anti-takeover measures
- **Employee relations** – the following non-exhaustive indicators are considered: Lost time incident rate (LTIR) trend, Monthly overtime hours, Employee turnover rate, Occupational health and safety management system, and Conducting Employee satisfaction surveys
- **Remuneration policies** – the following non-exhaustive indicators are considered: Freedom of association policies, Collective bargaining agreements, Discrimination policies, and the Independent remuneration committee under the board
- **Tax compliance:** Tax compliance matters are monitored by the Investment Team through accounting and taxation indicators in the ESG controversies from Sustainalytics.

Proportion of investments

The Sub-fund invests only in Japanese listed equities with the best ESG score according to our proprietary scoring methodology. All the investments will be made according to this investment strategy. Therefore, 100% of investments are made in order to attain the environmental and social characteristics promoted by the product.

The Sub-fund does not invest in derivatives. No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product.

Monitoring of environmental or social characteristics

The internal ESG score, based on the elements described in 'Environmental and social characteristics promoted by the financial product', is revised quarterly for each stock by the Investment Team, as the underlying data is updated by data providers or by companies themselves. This helps ensuring that each company maintains the highest standards of policies, management systems and non-financial performance to contribute positively to the environment and society.

To measure the attainment of the Sub-Fund's environmental and social characteristics described above, the Investment Team monitors the proprietary scoring of each investee company. Responsibility for the maintenance of high scored investees in the Sub-Fund Portfolio lies with the Investment Team who regularly reviews the scores of investee companies to ensure that all investments contribute to the strategy of the product. To meet this ambition, the Investment Team monitors the proportion of investments that rank higher than 50 out of 100, according to our proprietary ESG scoring method.

The Investment Team also monitors the median ESG score across all investments made by the Sub-Fund and tracks the score of the lowest-scored investment. These indicators allow the Investment Team to continuously redirect investments towards best-in-class companies.

Finally, the Investment Team tracks the number of corrective actions taken by the fund where investments are scored lower than the 50/100 threshold. Any compliance breach identified may trigger an appropriate corrective action in the investment-decision process. We automatically engages with the company to promote the improvement of the items which affected the score.

Methodologies

The attainment of the environmental and social characteristics of the product is monitored by looking at the ESG score of each investment on a quarterly basis. As described in the sections above, the investment strategy of the product is to invest in companies that show the best potential to create financial value by solving and managing environmental and social issues over which they have an impact.

The Investment Team monitors the ESG scores of more than 2000 stocks listed on the Tokyo Stock Exchange First Section (the TOPIX component stocks). These scores are updated every quarter. For investment candidates (see 'investment strategy section') the Investment Team considers the latest score before investing and confirms the stock score is above 50.

The ESG Development Department looks at environmental, social and governance aspects of these stocks (the 'Indicators / Evaluation items' listed in section 'Environmental and social characteristics of the financial product') and provides a grade for each of these aspects. Grades for each component are added up to obtain the total score out of 100. The weight of each component of the grade depends on the materiality of the aspect assess. Materiality of indicators is defined according to our assessment of global ESG issues, the external environment, and corporate trends. Materiality of ESG issues defers between manufacturing and non-manufacturing companies and is reviewed annually. In case of a change in ESG materiality after annual reviewing process in line with identification process of ESG materiality, the ESG score will adopt a new indicator. The turnover of indicators represents about 10% each year.

More information on materiality is available in our [Approach to Responsible Investment](#).

Each aspect is evaluated based on scores provided by multiple external data providers as well as information available from companies' disclosures.

ESG scores are adjusted to account for the number of employees in order to make the scores more comparable, by eliminating the tilt towards large-capitalization companies and incorporate small-capitalization companies adopting better transparency practices.

Data sources and processing

The Investment Team uses distinct external data sources to attain the environmental and social characteristics promoted by this product. Specifically, our ESG Development Department obtains data from multiple external data providers,

We are building a proprietary ESG database. The ESG scores which can be calculated for each investee company using this database is used for integration and screening. The criteria evaluated for the database are based on the external environment and corporate trends related to ESG, and they are generally reviewed every year.

The ESG Development Department gathers raw scores for each environmental, social and governance indicator from external data providers and proceeds to convert them into a mark integrating the materiality weight of the indicator (see section 'Methodologies' for further details on materiality) and matching our proprietary scoring, totaling 100.

The data is processed from each source on a quarterly basis and kept into our database.

Limitations to methodologies and data

An ESG scoring method is by nature limited by the fact that it gives an overview of the ESG performance of an organization covering various and different aspects. Companies may underperform in some ESG aspects but still receive one of the best scores of the universe if it performs well on other aspects. The Investment Team tries to overcome such limitations by emphasizing on certain aspects based on materiality and by adjusting to reduce the effect of biases, such as the size of the company.

The data underlying our ESG scoring relies heavily on ratings provided by Sustainalytics for the aspects that are evaluated (roughly 70% of all aspects use the rating from Sustainalytics). Sustainalytics ratings cover about 1,000 of the TOPIX stocks (the Sub-fund research universe), representing about 95% of TOPIX stocks in terms of market capitalization.

The ESG Development Department gives a null score for each aspect where no data is available from external data providers or companies' disclosures.

Currently, the rating methodologies and data available from external providers and companies' disclosures are deemed appropriate for the ESG investment philosophy and scoring process of the Sub-fund, which can therefore attain its objective to invest in the stocks with the best ESG scoring, as described in 'Environmental and social characteristics of the financial product'.

Due diligence

Due diligence is carried out during the stock selection process based on four areas, after the identification of stocks with the best ESG scores. This helps identify companies that can achieve earnings growth through resolution of ESG issues. The areas taken into consideration are the following:

- 1) Business sustainability

The Investment Team evaluates the sustainability of business through perspectives of the feasibility of mid-term business strategy, the room of potential growth, the disciplined continuous investment/R&D activities, and the stability of earning growth/cash flow/margin, etc.

2) Business model

The Investment Team analyzes the sustainability of business models by looking at several elements, including the strength and transparency of business model, the earning predictability, the quality of intangible assets(e.g. human resources) and the barriers to market entrance and threats from substitutes(e.g. brand power, durability to external condition)), etc.

3) Resolution of ESG issues

The Investment Team focuses on the social challenges the company faces and how it addresses them. The extent how the management team to be involved in the effort shall be paid attention.

4) Corporate governance

The Investment Team assesses the management capability, the persistence to corporate value, the clear vision or the corporate identity, the degree of the recognition of stakeholder balance and so forth.

The Investment Team engages with investment candidates through direct meetings with the companies' management to actively discuss the above areas and gain confidence over the companies' respective strategies and management structures. Other engagement topics can cover ESG management & approach, Growth strategy, Financial strategy, Corporate governance, and Disclosure policy.

Engagement policies

Engagement with investee companies is at the core of the Sub-fund's investment process. Based on our stewardship code, the Investment Team regularly meets with the companies' management to engage on themes such as the ones listed in section "Due Diligence": ESG management & approach, Growth strategy, Financial strategy, Corporate governance, and Disclosure policy. This last component of the engagement is particularly focused on the ESG characteristics of the company.