

MUFG Asset Management Responsible Investment Policy

Mitsubishi UFJ Trust and Banking Corporation Approach to Responsible Investment

1. Overview of Responsible Investment Initiatives

Mitsubishi UFJ Trust and Banking Corporation (hereinafter referred to as “we”), as an institutional investor, endorses the Principles for Responsible Investment (“PRI”) and the integration of environmental, social and governance (“ESG”) into its asset management business. As one of the largest asset management companies in Japan, it is our corporate social responsibility to contribute to the realisation of a sustainable society by persistently refining our approach to responsible investment; we focus on resolving issues that hinder medium-to-long-term growth with our investees to effect a positive social and environmental impact.

This approach also aligns with our corporate philosophy. We want to be an asset management company that helps to create a safe and enriching society for the benefit of future generations. In line with this, our corporate message is Trust Drives Our Future. As a responsible investor, by working with a wide range of stakeholders to resolve ESG issues, we will engage in responsible investment to improve medium-to-long-term returns and achieve sustainable growth for the market as a whole, thereby realising our goal of materialising a safe and affluent society.

2. Purpose of Responsible Investment

We are the principal asset management subsidiary of Mitsubishi UFJ Financial Group (hereinafter referred to as, “MUFG”). Together with Mitsubishi UFJ Kokusai Asset Management, MU Investments and Mitsubishi UFJ Asset Management (UK) Ltd., we form the “MUFG Asset Management” (“MUFG AM”) brand and collectively engage in asset management activities. MUFG AM has established this MUFG AM Responsible Investment Policy (“Policy”), which sets forth actions for improving investment performance through the creation of a sustainable society. Further to this Policy, and our commitments espoused within, we have implemented additional robust initiatives.

In addition to our contribution within MUFG AM’s collective approach, we have announced our commitment to ESG investments both in Japan and overseas to further enhance PRI and ESG integration into the asset management business. Aiming to fulfil our commitment, we have further built on our original initiatives and methodologies and established a governance system.

[MUFG AM Responsible Investment Policy](#)

3. Governance for Responsible Investment

Two of our departments work closely together to develop our ESG activities further.

The Responsible Investment Department, under the supervision of the Business Head, Asset Management Business, will, in relation to our ESG and Stewardship-activities relating to fiduciary assets:

- a. Oversee research, planning, and the promotion of ESG-related activities in the asset management business;
- b. Conduct public relations and external ESG-related negotiations; and,
- c. Assess ESG investment performance.

We established the Responsible Investment Committee under the Sustainability Committee, which consists of the CEO, Executives, and Division Managers. The Responsible Investment Committee, which consists of the head of Asset Management Business Division and other investment related division managers, discuss a variety of ESG activities and report them to the Executive Committee and Board of Directors through the Sustainability Committee.

The ESG Development Department sits within the Asset Management Division. It is responsible for:

- a. Enhancing ESG integration into investment decision-making processes for Japanese and international equities and bonds; and,
- b. Conducting discussions with investee companies.

While the Responsible Investment Department will oversee all ESG initiatives in the Asset Management Business as a whole, the ESG Development Department will diligently promote the integration of ESG in practical systems.

4. Approach to Responsible Investment

1. Material ESG Issues and Sustainability Risk Consideration

Under the Policy, we are promoting initiatives that consider ESG factors when investing in not only traditional asset classes, such as stocks and bonds, but also alternative assets such as real estate. With respect to externally managed investment products, we are working to strengthen due-diligence and monitoring standards further from the perspective of ESG.

The Material ESG Issues that are incorporated into all asset classes are positioned as the “starting point” in promoting our responsible investment efforts (see ‘Current Material ESG Issues’ below). We are working not only on the investment decision making processes but also on the sophistication of those processes to identify our Material ESG issues.

a. Process

Two criteria are used to identify Material ESG Issues.

One is to consider the factors that risk harm to the long-term value of the investee companies.

The second is to consider the opportunities that create long-term value or growth for the investee companies.

Material ESG Issues are identified from the perspective of the long-term, in part, through evaluating the Materiality Matrix. The Materiality Matrix maps the following two axes: (1) *Materiality in terms of society* and (2) *Materiality in terms of MUFG’s asset management* to visualise high-priority issues.

“Materiality in terms of society”, on the vertical axis, evaluates the importance of ESG issues to society by following recent ESG-related regulatory developments across developed countries. We add further foresight by considering the latest ESG-trends collected through stakeholder surveys and participation in ESG initiatives.

“Materiality in terms of MUFG’s asset management”, on the horizontal axis, takes into consideration the impact of ESG issues on our assets under management and the effectiveness of engagement, such as the different business characteristics of each industry within investment portfolios.

Material ESG Issues will change depending on the external environment and the circumstances surrounding society – we will review them once a year and will strive to achieve the maximum impact from responsible investment.

b. Current Material ESG Issues (as of January 2021)

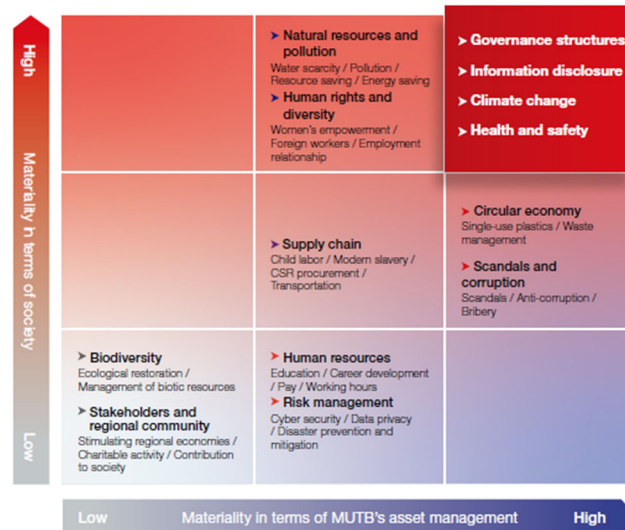
We will enhance our investment performance through responsible investment utilising Material ESG Issues.

Material ESG Issues currently comprise of five themes.

Material ESG Issues	Examples
Climate Change	Greenhouse Gases (“GHG”) reduction, Renewable energy, and Resilience
Information Disclosure	Risk analysis and Opportunities.
Human Rights and Diversity	Women’s empowerment, Foreign workers, and Employment relationships.
Health and Safety	Safety of employees and consumers and Healthy workplace
Governance Structures	Independent directors, Cross shareholdings, Diversity, and Executive remuneration.

There is an urgent need for global action on climate change. Regulatory risks, such as carbon pricing and climate-related legal actions due to climate-related policies are likely to increase. Business opportunities are expected to increase in line with the emergence of new climate-related technologies and markets. However, there are risks of market loss due to stricter regulations and the rapid obsolescence of traditional technologies. Particularly, carbon-intensive sectors such as power and gas utilities, fossil fuel (oil, coal, etc.) can be very sensitive to these risks. We also recognise that in the medium-to-long-term, the impact of climate change on our investee companies' financial performance may bring about a negative impact on our portfolios. We believe that extreme weather events caused by global warming could severely affect our investee companies' operations, resulting in a sudden decrease in asset value as well as a permanent increase in costs.

In practice, we review the Material ESG Issues every year and, if needed, will change our focus depending on the current state of the society.



2. ESG Risk Monitoring

To grasp ESG risks efficiently and objectively, we have built our own ESG Database by utilising external ESG data sources.

The total ESG score of each investee is determined by evaluation of items set for each of "Environmental," "Social," and "Governance" factors. Each investee is also assessed in relative comparison to others within the same industry.

Our analysts take into consideration our own ESG Database (ESG score); public information, such as integrated reports; ESG information obtained through actual engagement with companies; and, the ESG risks of investee companies. The evaluation results are then described in the analyst's report and the ESG risk is monitored-

In practice, the evaluation items of the ESG Database are reviewed annually based on trends related to global ESG issues, the external environment and corporate trends.

We use our ESG scores:

- To reference information for ESG integration;
- As a standard for quantitative screening; and,
- For analysts to set themes for engagement with investee companies.

3. Negative Screening

We use ESG negative screening methods to predetermine requirements that are considered unsuitable from an ESG perspective and exclude applicable investment targets.

In the management of domestic and foreign equities, we have introduced a process to exclude inhumane weapons-related companies as well as companies whose scores are below a certain level from investment targets by quantitatively evaluating them based on our ESG score.

4. ESG Integration

We have introduced ESG integration methods for investment decisions on Japanese equities and continually perform evaluations that combine both financial and non-financial analysis.

In relation to corporate value evaluation of Japanese equities, where applicable, we incorporate the *impact* and *effect* of the ESG initiatives into the earnings forecast. When it is difficult to incorporate them into earnings forecast due to changes in the environment, we incorporate our ESG evaluation into the discount rate (cost of capital) when calculating the theoretical stock price of a company. Material ESG Issues may affect the business model and competitive advantage of the investee company, and in the short or medium-to-long term, may result in material negative impacts on the company's finances and corporate value. As a responsible investor, we believe it is important to analyse the effects and impacts of ESG from the perspectives of both *risk* and *opportunity* in corporate value evaluation.

5. Monitoring Approach

For companies with whom we are engaging, we explore the situation of corporate change in stages in line with each company's awareness of issues and points of view and with the aim to improve its medium-to-long-term corporate value and capital efficiency, as well as, to solve Material ESG Issues.

We recognise that the Investee knows its business better than us, is the expert, and will already know about the majority of issues that we raise. We are seeking to offer guidance and to understand how the Investee intends to mitigate any risks or change its business and governance, in particular with regard to our Material ESG Issues.

We divide Investee progress into the following four stages:

1. Identifying the company's issues;
2. Discussing issues with the company;
3. Taking action to solve the issues; and,
4. Issues solved (meaning favourable conditions are now in place).

We continually monitor the effectiveness of our engagement with the company and its actions to solve Material ESG Issues throughout the different stages.

6. Our Responsible Investment Initiatives

In July 2019, we formulated our Policy with each of our subsidiary companies as a guideline for responsible investment activities. Through activities following these six principles, we aim to create a more secure and prosperous society by engaging with a wide range of stakeholders.

[Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes]

We have, in principle, incorporated ESG perspectives into the investment process for all Japanese and international assets under management. The Responsible Investment Department oversees responsible investment activities of the entire Asset Management Business and has established specific strategies for each asset class outlining concrete management methods. As one of the biggest asset management companies in Japan, we have appointed a large number of analysts and fund managers who are continuously evaluating ESG initiatives of our investee companies and conducting discussions with them and utilise their rich expertise to improve investment performance.

We have adopted a positive screening method for Japanese equities and have introduced an investment strategy that helps us invest in companies that aim to solve ESG issues and enhance corporate values at the same time.

For the management of Japanese bonds, we are moving forward with the integration of ESG into the investment process. For example, we are utilising ESG related non-financial information and considering it crucial in credit risk evaluation in addition to financial information used in regular investment decisions.

Also, we have built an ESG Database to efficiently capture a wide range of non-financial information and have established a system that allows the related staff of each investment process to access and

utilise the database. We update the indicators used in this database whenever necessary to expand the coverage of ESG issues and will continue to improve the ESG database to address new trends.

We also work with external managers to respond to the diverse needs of our clients. We are encouraging external managers to take an active role in ESG. Also, we check and evaluate the status of ESG activities at external managers.

[Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices]

We have identified Material ESG Issues that need to be discussed to achieve corporate value enhancement through ESG. We shall continue contributing to the sustainable corporate growth of our investee companies by conducting engagement activities with them. Material ESG Issues are selected based on their importance to society and the importance to investee companies. We emphasise the importance of conducting meaningful discussions with investee companies and utilising individually tailored approaches when conducting engagement activities for Japanese and international equities.

For Japanese equities, our analysts and fund managers engage in purposeful dialogue with portfolio companies aiming to enhance their corporate value by evaluating the companies based on information from the ESG Database and closely examining information disclosed in their integrated reports. Also, we make investment decisions to improve fund performance. This is done by forecasting the performance of the companies based on the mentioned dialogue; analysing their non-financial information; and, evaluating stock prices based on potential corporate value.

For international equities, we have entered an outsourcing agreement with Standard Life Aberdeen Ltd. ("SLA"). A universe of companies for engagement is selected after considering their potential impact on investment returns. SLA then dedicates ESG teams to collaborate with regional equity teams and conduct engagements with portfolio companies to increase companies' corporate value.

For assets outsourced to external asset managers, we regularly monitor their active ownership efforts.

Please find the link below for more information on our engagement and voting activities.

[Stewardship](#)

[Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest]

We believe that the attitude of portfolio companies towards information disclosure is an important issue to be addressed when conducting engagement activities. We will accurately understand the status of portfolio companies by utilising our ESG Database tool. We will enhance the disclosure of non-financial information, including ESG aspects, by engaging in a dialogue with companies that are reluctant to disclose information.

[Principle 4: We will encourage the investment industry to embrace and implement the Principles]

We host various events and take initiatives to promote the adoption of ESG perspectives across the Japanese industry. Specifically, we are collaborating with Mitsubishi UFJ Trust Investment Technology Institute Co. Ltd., (one of our group companies) and conducting research and development for ESG promotion. Our main initiatives include empirical research that uses ESG information for corporate evaluation and investment decisions. By analysing text data, we evaluate the company's attitude towards ESG and examine the relationship between their compensation system and corporate performance. Then, we incorporate these research results into the investment process and further work to strengthen our corporate evaluations using ESG.

We will also develop new ESG indices – for example, selecting companies that achieve sustainable improvement in Return on Equity ("ROE") by utilising non-financial information in addition to financial information when developing indices to investing in companies with high ROE. We believe that analysing data on issues that may damage corporate value, such as scandals, as well as topics that indicate that management is capable of maintaining high levels of ROE among other non-financial information helps to develop higher-quality ESG indices.

[Principle 5: We will work together to enhance our effectiveness in implementing the Principles]

We endorse and participate in various initiatives promoting future collaboration, such as PRI, and others including:

- Principles for Responsible Investment /PRI
- United Nations Global Compact
- United Nations Environmental Programme Finance Initiative /UNEP FI
- Principles for Financial Action for the 21st Century
- International Integrated Reporting Council /IIRC
- Japan Sustainable Investment Forum/ JSIF
- Climate Action100+
- The Task Force on Climate-related Financial Disclosures/ TCFD
- Carbon Disclosure Project/ CDP
- Asia Investor Group on Climate Change /AIGCC
- Marine Microplastic Pollution Engagement Plan
- 30% Club Investor Group
- Investors Against Slavery and Trafficking Asia-Pacific
- Council of Institutional Investors/CII
- Institutional Investors Collective Engagement Forum
- Japan Stewardship Initiative/JSI
- The Global Impact Investing Network /GIIN

[Principle 6: We report on our activities and progress regarding responsible investment]

Every year, we report to PRI our responsible investment activities and publish our “Responsible Investment Report” to inform our Japanese Stewardship Code related activities to a wide variety of stakeholders. In the report, we disclose our ESG related initiatives as well as our activities on engagement and proxy voting.

5. Education and Training

To enhance the application of the practical implementation of the initiatives stipulated in our Policy and our ESG and Responsible Investment initiatives, each analyst, fund manager and other staff members are appointed concurrently as members of the Responsible Investment Department and ESG Development Department.

Our staff play a central role in the promotion of understanding towards ESG issues and ESG related initiatives in each department and investment process. Moreover, we are implementing the following specific activities:

A. Education and Training for addressing Material ESG Issues

Taking into consideration changes in our social environment, we have identified Material ESG Issues to build a sustainable society. The Responsible Investment Department and the ESG Development Department work closely together to enhance the effectiveness of dialogue to tackle Material ESG Issues. Both offices regularly share the latest information regarding ESG trends with analysts and fund managers in charge of engagement activities. They also share successful examples of engagement and conduct education and training introducing ESG score utilisation methods.

B. Sharing Sessions within the Engagement meetings

We hold quarterly engagement meetings to share successful examples of ESG related practices. These successful examples are shared with our analysts and utilised to improve the performance of each operation team.

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