

Material
Issue **3**

Providing Sustainable and Responsible Financial Services

Promoting SRI Incorporating ESG Factors and Addressing Social Issues through Financial and Insurance Services

Fact



Relative proportion of ESG assets in total assets under management in Japan

Source: 2012 Global Sustainable Investment Review, Global Sustainable Investment Alliance

The United Nations supported Principles for Responsible Investment (UN PRI) were formulated in 2006 under the United Nations Environment Programme Finance Initiative (UNEP FI) launched in 1992, in which insurance and reinsurance companies that are highly concerned about natural disasters and other imminent hazards are core members. The UN PRI goal is to support institutional investors signatories to incorporate ESG (environment, social, and governance) issues into their investment decision-making processes, ownership practices, and analysis of each investment from a long-term perspective for their clients and beneficiaries. The size of the global assets taking into account ESG considerations have been increasing as Europe and Africa reaching approximately 8,750 billion and 230 billion US dollars respectively while in Japan was 10 billion US dollars in 2012. The relative proportion of ESG assets in total assets under professional management in Japan only represents 0.2%.

Our Action

Global ESG investment is one of the seven strategies of SRI categorized by "Global Sustainable Investment Review 2012." During the last few years, such assets that incorporate ESG concerns into their investment selection and management are representing as much as approximately 1.4 times higher than the total market capitalization of the Tokyo Stock Exchange as of fiscal year 2012.

Sompo Japan Nipponkoa and Sompo Japan Nipponkoa Asset Management became signatories of UN PRI in 2006 and 2012, respectively. The companies also announced in May 2014 that they would adopt the Japanese version of the Stewardship Code, which was announced to define the "Principles for Responsible Institutional Investors" in February 2014.

The Sompo Japan Nipponkoa Group promotes SRI by incorporating ESG factors into the investment selection process, and continues its efforts to develop insurance and financial products and services that contribute to solving social issues.

Masaki Hanawa, Director, Managing Executive Officer of Sompo Japan Nipponkoa, and Makiko Murakata, Investment Manager of Sompo Japan Nipponkoa Asset Management, had a dialogue on the theme of SRI with Mr. Masaru Arai, Chair of the nonprofit organization Japan Sustainable Investment Forum (JSIF) in May 2014.

Mr. Arai described for the latest global trends of SRI and the importance of the ESG investments as well as his expectations of the Sompo Japan Nipponkoa Group, and provided advice on the Group's efforts to promote SRI.

Current Status of SRI in Japan

Arai The global trends of SRI have changed significantly in the last few years. In Japan, the publication of the Japanese version of the Stewardship Code has been crucially important for future SRI. These

two changes both suggest that the boundary between ordinary investments and SRI is beginning to blur and I think this is an important point that we shall comprehend.

The most prominent change seen in the last few years is the ESG investments—also known as responsible investments—that incorporate the ESG issues that have been growing mainly in Europe and the United States.

While SRI outstanding amounts in Japan remain comparatively small at 10 billion US dollars, those in Europe and the United States are several hundred times higher at 8,758 billion US dollars and 3,740 billion US dollars, respectively. SRI assets are also growing in emerging countries, such as those in Africa and Asia excluding Japan reaching 229 billion US dollars and 64 billion US dollars, respectively, far exceeding the figure of Japan. I regret to say that SRI in Japan is lagging far behind other countries.

The “Global Sustainable Investment Review 2012” report categorizes SRI into seven strategies. Among these, the greatest issue for Japan is the “integration of ESG factors.” ESG investments have been increasing around the world in the last few years and their total assets are currently the second largest in all the types of SRI at 6,176 billion US dollars. This figure is quite large considering that the total market capitalization of the Tokyo Stock Exchange is about 4,500 billion US dollars.

One factor that has prompted this fast global increase of ESG investments is the United Nations-supported Principles for Responsible Investment (UN PRI) Initiatives, which is an investor-led coalition in partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact (UN GC) that developed with the contributions of multi-stakeholder group including public pension

funds, financial institutions, asset management companies, and other entities. UN PRI Initiatives encourage signatories to publicly demonstrate their commitment to responsible investment by incorporating ESG factors into their investment decision making and ownership practices. Since the launch of the principles in 2006, the number of signatories of the UN PRI Initiatives has been increasing steadily to reach 1,259.



Masaki Hanawa

Director, Managing Executive Officer
Sompo Japan Nipponkoa Insurance Inc.

Commitments by the Sompo Japan Nipponkoa Group

Hanawa Sompo Japan Nipponkoa became the first signatory of the UN PRI principles among Japanese insurance companies in 2006, followed by Sompo Japan Nipponkoa Asset Management, which adopted the principles in 2012. We have been incorporating ESG issues in the screening process of investment and loan applications by confirming the applicant companies' inclusion of the environment-related funds and indices, and their actual effort for the environment issues.



Mr. Masaru Arai

Chair
Japan Sustainable Investment Forum (JSIF)

Seven Classifications of SRI

Classification	
1	Negative/exclusionary screening
2	Integration of ESG factors
3	Corporate engagement and shareholder action
4	Norms-based screening
5	Positive/best-in-class screening
6	Impact/community investing
7	Sustainability themed investing

Source: 2012 Global Sustainable Investment Review, Global Sustainable Investment Alliance

We also monitor our external investment management firms and periodically review the organizational structure and investment policy including the contribution to ESG issues. We saw growing number of cases that our private equity funds we invest also adopt more rigorous governance standards and focus more on environmentally considerate operations as part of the investees' management strategies. I'm beginning to feel in recent years that we are advancing in terms of the integration of ESG factors.

Murakata Sompo Japan Nipponkoa Asset Management launched the “Sompo Japan Green Open” in September 1999 as Japan's second SRI fund product offered publicly to individual investors who wish to invest in environmentally sound companies. The Sompo Japan Green Open is developed as one of the Sompo Japan Nipponkoa Group's advanced CSR initiatives and the product has grown into one of Japan's largest publicly offered SRI funds.

We also launched the “Sompo Japan SRI Open” in March 2005 that invests in corporations with high ESG performance on a broad basis and the “Sompo Japan Eco Open” in April 2008, the SRI fund that selects stocks based on forecasted dividend yields as well as the



Makiko Murakata

Investment Manager
Sompo Japan Nipponkoa Asset
Management Co., Ltd.

results of environmental surveys and equity valuations. Furthermore, we launched the "SNAM Sustainable Investment Fund" in August 2012, which offered to qualified institutional investors only. This fund invest in corporations with high ESG performance and seeks a stable return over the long term under buy-and-hold strategy. Its managed assets are growing rapidly by attracting large pension funds as well.

Arai The Sompo Japan Nipponkoa Group launched the Sompo Japan Green Open in 1999, the very first year in which SRI was started in Japan, and became one of the initial signatories of UN PRI. I recognize the Group as one of the financial institutions that have been at the leading edge in the area of sustainable investments in Japan consistently throughout the history.

There has been one movement since late 2013 that indicated SRI in Japan may have finally changed significantly. The Japanese government's growth strategy aimed at stimulating private investment had made major progress under the Japan Revitalization Strategy often referred to as "Abenomics," and it led the Financial Services Agency to introduce the Japanese version of the Stewardship Code. This is a set of principles aimed at encouraging a wide range of institutional investors to pursue higher mid- to long-term investment returns for their clients and beneficiaries by committing constructive engagement with company management through "purposeful dialogue" and fulfill their stewardship responsibilities.

A series of meetings by the panel of experts were also organized by the Cabinet Secretariat to discuss more sophisticated investment and risk management of public and quasi-public funds including the Government Pension Investment Fund (GPIF), while the Council on Economic and Fiscal Policy (CEFP) and other advisory bodies proposed that the adoption of the Japanese version of the Stewardship Code and the communication of both financial and non-financial information should be promoted as part of the conduct expected to the responsible institutional investors in order to enhance mid- to long-term corporate value and capital efficiency, and support the sustainable growth of investee companies.

These government activities suggest that SRI, whose domain is considered globally to be rapidly overlapping with that of ordinary mid- to long-term investments, is becoming increasingly important for Japan's economic growth strategy.

Declaration to Accept the Japanese Version of Stewardship Code

Hanawa Sompo Japan Nipponkoa declared its intention to accept the Japanese version of the Stewardship Code in May this year and is planning to announce details of this policy on our official website in September. We also ensure that our products and services contribute to the security, health, and wellbeing of our customers as stated in the Group Management Philosophy.

In Japan, growing demand for facility-based nursing care for senior citizens currently outstrips the supply of healthcare facilities and is currently a serious issue. While the government is promoting the supply of risk money aiming to increase the healthcare facilities, Sompo Japan Nipponkoa agreed in April this year to establish a real estate investment trust (REIT) that specializes in investment in senior healthcare and nursing facilities jointly with other firms, and established Japan Senior Living Partners Co., Ltd. as an asset management company which will

manage the Healthcare REIT.

Japan Senior Living Partners seeks to establish an investment corporation for acquiring fee-paying nursing homes, service-added housing for the elderly, hospitals and other assets to be incorporated into the REIT, take that REIT public by the latter half of 2014, and expand the amount of assets it manages to approximately 100 billion yen at an early stage. By leveraging the expertise of each partner company, the REIT is expected to broadly support the growth of the healthcare industry through funding from capital markets and thereby contribute to the steady supply of high-quality senior healthcare and nursing facilities.

Under the growth strategy aimed at stimulating private investment, or the "third arrow" of Abenomics, the promotion of renewable energy and infrastructure investment is encouraged. Sompo Japan Nipponkoa has set aside 30 billion yen for investments and loans in fast-growing areas to gain mid- to long-term returns in the company's new investment plan for this fiscal year. We are planning to invest in a wide range of sectors that transcend traditional asset classes, which may include renewable energy, infrastructure, healthcare, and water treatment.

We also confirm the borrower's policy of environment and implementation of the environmental accounting prior to making a investment decision or money lending. We will continue to strive to expand SRI and incorporate ESG concerns into our investment and loan decision-making processes.

Murakata Sompo Japan Nipponkoa Asset Management announced its decision to accept the Japanese version of the Stewardship Code in May this year, and will publish the details of the policy on our official website. The common discussion theme under the government's growth strategy with regard to the investor's asset management seems to generally focus on how to contribute to macroeconomic growth. And as a methodology to achieve this goal, it seems that the "non-financial information" and "dialogue" are the key words for company side and "long-term investment" is the key word for the market side. The GPIF reform, which is currently a topic of great interest, can also be understood as a process of not just changing the consciousness of pension funds but also reforming asset management companies and investee companies as well.

Sompo Japan Nipponkoa Asset Management will strive further to enhance its daily stewardship activities including dialogue with investee companies—which we have traditionally focused on—with the view of mid- to long-term stock value and support the expansion of SRI.

Importance of ESG Factors

Arai I think that the integration of ESG factors into investment and lending processes, investing in newly growing areas, and the establishment of the REIT are quite good examples of how Sompo Japan Nipponkoa makes the most of its distinctive advantages in the promotion of SRI.

Let me explain here why ESG investments are becoming so important. It is because global investors who prefer mid- to long-term investments have begun to realize that ESG information is effective mainly in the pursuit of mid- to long-term growth and returns as well as in the avoidance of risks.

Traditional SRI tended to be conducted only by research firms and

investment companies specializing in SRI, and it was not always clear as to how financial status and returns should be treated in traditional SRI. However, the idea of ESG investing is quite different from that of traditional SRI. The basic idea of ESG investing is to incorporate non-financial information into ordinary investing processes—in other words, the integration of ESG factors. The reason behind the fast increase of ESG investments is because pension funds and asset management companies have started to realize that they need to incorporate ESG factors into their ordinary investment methodologies.



|| Trends of ESG Information

Arai As the importance of ESG investments and mid- to long-term investments rise, the companies are required to disclose non-financial information including CSR in a more easily comprehensive way for the investors.

In the future, companies are expected to integrate financial and non-financial information as proposed by the International Integrated Reporting Council (IIRC) and report in a way that matches their industry sector by following the U.S. Sustainability Accounting Standards Boards (SASB) and the latest G4 guidelines of the Global Reporting Initiative (GRI). These new trends require each company to focus on particular items of non-financial information that they considers important—rather than simply providing information on an item-by-item basis—and clearly explain how financial information and non-financial information provided in the report such as ESG issues are related to each other.

Another important trend is the increasing availability of ESG information for investors. For example, Bloomberg, a well-known online investment information source, offers ESG information for each company in the similar format with regard to financial information; the content of information provided has also improved further in the last few years. FTSE4Good Index Series, which is one of the world's best SRI indices, started to publish ESG ratings in 2011. As these examples indicate, the availability of ESG data and rating information that assist decision-making of investors has been increasing, and platforms for providing such information have also been developed rapidly. ESG information was previously very difficult to obtain, but investors now can obtain and utilize it as much as they wish.

Along with this fast increase of the availability of ESG information, it is also expected that companies will expand their ESG initiatives. I would like to expect the Sompo Japan Nipponkoa Group to further advance its efforts to integrate ESG factors that support mid- to long-term returns and corporate growth into its investments.

|| ESG Disclosure of the Sompo Japan Nipponkoa Group

Hanawa Sompo Japan Nipponkoa has been actively disclosing information by issuing the Environmental Report in 1998 for the first time among Japanese financial institutions. We have also made clear

our commitment to disclose transparent information in the Group CSR Vision established in April this year and have included it in the Group's Six CSR Material Issues. We will continue to make efforts to proactively disclose information on our ESG initiatives to meet the demand of investors.

|| Expectations toward the Sompo Japan Nipponkoa Group

Arai With regard to investee companies in which you hold shares, I believe it will be important to exercise your voting rights and engage with them through dialogue by applying the Japanese version of the Stewardship Code.

For example, if your SRI evaluation system finds social responsibility efforts of a particular investee company insufficient in certain areas compared with other companies in the same industry, you can ask questions to the company regarding such shortfalls. These questions may give the company a chance to learn and you can also share best practices of other companies that have been highly evaluated.

With the introduction of the Japanese version of the Stewardship Code, institutional investors are expected more than ever to encourage investee companies to maintain mid- to long-term sustainable value. I believe it is important for you as an investor to have constructive engagement through dialogue with the investee companies to encourage them to disclose ESG information and discuss their strengths and weaknesses.

Through such dialogues you can give important suggestions to investee companies and help them grow, while at the same time fulfilling your responsibility as an investor.

Hanawa Thank you for your invaluable advice. As you have just suggested, we are well aware of the importance of having constructive engagement through dialogue with investee companies. We will have your advice in mind when signing the Japanese version of the Stewardship Code.

As a responsible institutional investor, the Sompo Japan Nipponkoa Group will continue to promote the integration of ESG factors, as well as the use of financial information, into its investing processes.

Thank you very much.