

VI Priority Theme 4

Invest to help build a sustainable society

103-2

103-3



1. Basic Concept

1-1 Basic Concept

With the main business of the Group being life insurance business, contributing to realizing a sustainable society through investment is one of the most fundamental roles of the Group. The sustainable and stable growth of society is essential in securing long-term stable profit through investment. The Group focuses on the impact that the investment activities of the institutional investors who manage long-term funds have on efforts to realize a sustainable world. The Group will contribute to the realization of a sustainable society through investment activities undertaken in consideration of the environment, society and corporate governance.

2. Responsible Institutional Investor

2-1 Signing of the Principles for Responsible Investment (PRI)

Daido Life, Taiyo Life, and T&D Asset Management have signed the Principles for Responsible Investment (PRI)*, which is supported by the United Nations.

Signatory of:



Taiyo Life Insurance Company

In order to further fulfill its social responsibility as an institutional investor, Taiyo Life determined that it was essential to exert its influence for the betterment of society and the global environment through investment and lending activities to a greater extent, and to contribute to the realization of a sustainable society.

In line with this thinking, in March 2007, Taiyo Life became the first Japanese life insurance company to sign the PRI.

Based on these principles, Taiyo Life gives due consideration to ESG issues, namely, environmental (E), social (S), and governance (G) issues, and promotes asset management to achieve a sustainable society.

Daido Life Insurance Company

Daido Life supports the objectives of the PRI and became a signatory institution to them in November 2016. Based on these objectives, Daido Life is contributing to the formation of a sustainable society through promoting investing and lending that considers environmental, social and governance (ESG) issues. Specifically, the company is promoting lending and investment that aims to supply funds to companies and businesses that contribute to solving climate change and the development of social infrastructure. The company is also carrying out initiatives regarding asset management that incorporates ESG factors such as company analyses of investment processes.

T&D Asset Management Co., Ltd.

T&D Asset Management, to fulfill its responsibilities of being entrusted as an institutional investor that manages investments, endorses the concept of the PRI, and signed them in March 2012. In accordance with these principles, T&D Asset Management tackles ESG issues in a manner consistent with meeting the long-term interests of customers, fully grasping the status of investee companies. Accordingly, the company is also committed to pursuing the sustained growth of these companies, particularly through holding constructive dialogues with them and through the exercise of voting rights, with the aim of increasing the medium- and long-term investment returns on the funds entrusted to it by customers.

The status of each Group company's PRI initiatives is reported in PRI Transparency Report. Enter the name of the company of interest into the search box at the following link:

WEB <https://www.unpri.org/searchresults?qkeyword=¶ms=WVSECTION%7cSignatories>

* The Principles for Responsible Investment (PRI) are a code of conduct for the global financial industry that was proclaimed by Kofi Annan, the secretary-general of the United Nations in 2006. A commitment to these principles has been signed by over 3,200 financial institutions worldwide, and by 83 in Japan (as of July 2020).

[Principles for Responsible Investment (PRI) Initiatives]

Example from Taiyo Life

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

• **We reflect the PRI approach in our stance on asset management**

Taking ESG issues into account is one of Taiyo Life's stances on asset management, as is clearly stated in our rules for asset management.

<Our Stance on Asset Management>

1. Under the principle of self-responsibility in management, we will strive to enhance and strengthen such organizations as our internal control organization by utilizing the function of mutual checks, our risk management organization based on the financial environment, etc., and our asset management organization.
2. Based on the nature of the life insurance industry, we aim to promote the interests of policyholders and others, taking social and public aspects into greater account. Such aspects include strictly refraining from speculative trading, as well as unsound investments and loans.
3. When making investment and financing decisions, we also account for the impact of our actions on domestic and international financial and capital markets. In addition, when investing or financing overseas, we take the local financial and economic impacts into account, as well.
4. We also strive to instruct our subsidiaries and other entities with special relationships specified by the Cabinet Office Ordinance ("subsidiaries and others") to take social and public aspects into account in their asset management actions.
5. We strive to contribute to the continuous development of society and the financial markets, taking into account issues regarding the environment, social responsibility, and corporate governance.
6. As a responsible institutional investor, we strive to properly fulfill our duty of stewardship, through means such as constructive dialogue with investment targets.

Taiyo Life ESG Investment Criteria

Taiyo Life has specified the "ESG Investment Criteria," in order to promote asset management that considers ESG issues. The main investment and lending methods based on these criteria are as follows.

[ESG Theme Investments]

In consideration of environmental, social, and governance issues, Taiyo Life is working on investment and lending with themes that are capable of contributing to the realization of a sustainable society.

[ESG Integration]

When investing and financing stocks, bonds and other securities as well as real estate and loans, Taiyo Life incorporates corporate assessments related to non-financial information such as ESG into the financial information of the recipients of the investment and lending. In this manner, the company strives to improve the long-term outcomes of the investments, while at the same time fulfilling our mission based on PRI.

[Negative Screening]

Taiyo Life manages the insurance premiums collected from our customers, while taking into consideration social and public perspectives, as well as profitability and liquidity. We prohibit investment and financing, in principle, in cases such as when the recipients are judged to be involved in antisocial behavior, or when an involvement in inhumane weapons* has been confirmed. We also prohibit, in principle, new investment and financing for coal-fired power generation projects. Furthermore, when an ESG related scandal or a serious ESG issue occurs at a business partner or the recipient of investment and financing, we will consider whether or not to invest based on these Criteria, after confirming the situation through direct communication or other methods, as necessary.

* Weapons that are sanctioned by the Government of Japan and whose use is totally prohibited by the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects.

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

Incorporating the Principles into our standards for exercising voting rights

We clearly state our approach to PRI in our standards for exercising voting rights by signing the PRI.

In this manner, we exercise voting rights based on social and public aspects, as well as our fiduciary responsibility to our customers, shareholders, and other stakeholders. In addition, we take the ESG perspective into greater account when exercising voting rights. In this process, we establish internal decision-making processes and a system for reporting to management, and disclose the status of exercising voting rights on the Company website.

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

Adequate disclosure of ESG issues

We strive to practice regular constructive purposeful dialogue (engagement) with our investment targets. In this regard, we also work to promote an understanding of our response to ESG issues, from the perspective of contributing to the realization of a sustainable society. At the same time, we seek adequate disclosure, while confirming the response to ESG issues by these companies.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Explanation of PRI activities to corporate pension plan and other contract partners

Taiyo Life includes information regarding PRI activities in its disclosure materials regarding corporate pension plans. In addition, as necessary, we explain details regarding our statement of accounts, asset management policy, PRI activity status, and the like to corporate pension plan and other contract partners.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.**Information exchange and collaboration with PRI signatory institutions**

We regularly participate in meetings with PRI signatory institutions and related entities, in order to improve acceptance and implementation of the PRI, and promote our PRI activities more effectively and concretely. We also share best practices and global trends regarding the responsibility to take ESG issues into account in the investment and financing decision-making process. Furthermore, we discuss specific measures to promote the acceptance and implementation of the PRI, while taking into consideration circumstances unique to Japan.

Principle 6: We will each report on our activities and progress towards implementing the Principles.**Reporting on the status of our PRI activities on our website and elsewhere**

We internally and externally disclose details regarding our PRI initiatives, including the history of our signing, on our website, in our disclosure materials, and elsewhere. In terms of the PRI framework, we also report on the status of our PRI activities for the fiscal year to the PRI Secretariat. This report includes the status regarding building an organization for PRI activities, as well as incorporating our ESG Investment Criteria in the investment stage.

Promoting an understanding of the PRI internally

Practicing asset management based on the PRI approach requires that everyone involved in asset management understand this approach. Accordingly, we use e-learning and other means to actively learn about the PRI approach, global trends, and the like.

2-2 The T&D Insurance Group's stance on Investment and Financing for Coal-fired Power Generation Projects

With regard to fossil fuel-related businesses such as coal-fired power generation, we recognize that the consumption of fossil fuels is one of the major factors driving environmental problems such as climate change and air pollution, and that the attitude of institutional investors in this sector is more important than ever before.

It is the Group's policy not to make any new investments or loans to coal-fired power generation projects. However, we may consider investments and loans in cases where the environmental impact of the project will be reduced, for example through the development and application of new technologies for carbon capture and storage (CCS) or carbon capture, utilization and storage (CCUS).

2-3 Examples of ESG Investment and Financing

Taiyo Life, Daido Life, and T&D Asset Management practice the following types of ESG investment and financing.

- **Investments in Environmental Problem Solving Green Bonds**

We invest in Green Bonds, which financially support various projects by local governments and incorporated administrative agencies. These projects include working on "Creating Smart Energy Cities" and "Adapting to the Effects of Climate Change," and promoting the convenience of urban rail, which is expected to be effective in improving the environment, including reducing CO₂ emissions.

- **Investment in and finance renewable energy projects and energy efficiency projects**

We have invested in funds for projects that are working to create domestic solar power generation to provide clean energy, and have financed energy efficiency businesses. Through these efforts, we are contributing to the promotion of global warming countermeasures and the enhancement of energy self-sufficiency ratios.

- **Finance of the "Seawater Desalination Project," which can contribute to the resolution of water shortages in Australia**

We financed a seawater desalination project aimed at supplying drinking water in a public-private initiative by a state government in Australia. This financing is an initiative to contribute to the creation of social infrastructure in a region suffering from water shortages.

- **Participation in project financing of "Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido," which is intended to contribute to regional development and growth**

We participated in the joint financing of a project to integrate the operations of the seven airports in Hokkaido, which were previously operated by separate entities. This financing is an effort to maximize the role of the airports as a key transportation hub and contribute to Hokkaido's further development and growth.

- **Investment in "Social Bonds" which contribute to supporting infrastructure development and job creation, etc. in developing regions**

We invested in "Social Bonds" issued by JICA, a government agency that provides Official Development Assistance (ODA) such as funding for economic and social development in developing regions. The financing is used in projects such as infrastructure creation, job creation support, and the like, mainly in developing regions.

- **Infrastructure financing for the Government of Togo**

We provided financing to the Government of Togo with the aim of contributing to Togo's economic growth and improving its people's lives. In West African countries, including Togo, infrastructure development for economic and social development has become a social issue, and the funds to be raised through this project will be used to improve infrastructure such as ports and other facilities and to expand social welfare in Togo.

• **Investment in the “Fund Supporting Good Health,” “Japan Healthy Society Support Fund,” and “Healthy Society Contribution Fund,” which support projects that contribute to the promotion of human health**

We invested in the Fund Supporting Good Health and the Japan Healthy Society Support Fund, with the aim of responding to the social issue of extending healthy life span. The former is for listed corporations in Japan that conduct businesses such as pharmaceuticals, healthcare, sports clubs, and health foods that contribute to the promotion of human health, while the latter supports projects that contribute to the promotion of human health.

• **Investment in companies that contribute to the creation of a sustainable society**

Taiyo Life and Daido Life invest in the “T&D Japan Equities ESG Research Fund.” The fund selectively invests in companies with an outstanding ESG performance, through stock selection based on ESG research. T&D Asset Management established and manages the fund (management began in July 2015).

2-4 The Principles for Responsible Institutional Investors (Japan’s Stewardship Code)

Three of the Group’s companies, Taiyo Life, Daido Life, and T&D Asset Management endorsed and expressed their commitment to the Principles for Responsible Institutional Investors (Japan’s Stewardship Code) in May 2014.

Details regarding the policies of each company with respect to the Principles, policy on exercising voting rights, status of exercising voting rights, and self-evaluations are published on the companies’ respective websites (Japanese).

Taiyo Life Insurance Company	https://www.taiyo-seimei.co.jp/company/activity/ssc.html
Daido Life Insurance Company	https://www.daido-life.co.jp/company/csr/investor/ssc/
T&D Asset Management Co., Ltd.	https://www.tdasset.co.jp/company/principles/stewardship/

* Since T&D Financial Life does not directly invest in listed stocks, the company does not express support for the Stewardship Code.

● Policy on Exercising Voting Rights

Taiyo Life, Daido Life

Taiyo Life and Daido Life strive to make voting decisions based not only on formal determination criteria such as financial information, but also on non-financial information such as ESG. They also promote the sustainable growth of investment targets by practicing regular constructive purposeful dialogue (engagement). Based on this fundamental approach, they exercise their voting rights rigorously, in accordance with criteria (revised continuously in accordance with the economic environment and social conditions) established to ensure that voting rights are exercised properly. In order to strengthen our governance and conflict of interest management structures relating to stewardship activities as a whole, including the exercise of voting rights, we created a committee on exercising voting rights, which includes outside members.

《Main Focal Points for Carefully Examining Proposals, Engaging in Dialogues and Making Voting Decisions》

- ▶ Are dividends to shareholders insufficient or excessive?
- ▶ Does the investee company face problems in connection with any activities against public order and common decency (willful tax evasion, collusion, bribery, etc.) and/or antisocial activities such as environmental destruction (actions deemed questionable in light of ESG problems)?
- ▶ From the standpoint of requesting investee companies to ensure corporate governance is functioning effectively in management, does the investee company present problems in terms of any of the following:
 - Level of ROE
 - Number and independence of outside directors
 - Attendance rate of corporate officers at meetings of the Board of Directors and the Audit & Supervisory Board
 - Length of service of Audit & Supervisory Board members
 - Eligible recipients of retirement benefit payments
 - Eligible recipients and levels of incentive compensation

T&D Asset Management

T&D Asset Management believes that exercising voting rights is an effective means for shareholders to increase the corporate value of investee companies by giving the shareholders a say in corporate governance, which has a pivotal impact on corporate management. Based on this belief, T&D Asset Management has clearly codified guidelines in its internal rules for expressing its voting intentions on proposals put forward to the Ordinary Shareholders’ Meeting. This is to fulfill the company’s fiduciary responsibility as an asset management institution by aiming to maximize shareholder returns. Moreover, T&D Asset Management carefully examines all proposals put forward based on the Guidelines for Exercising Voting Rights.

《Main Approaches to Individual Proposals》

《Selection of Directors and Audit & Supervisory Board Members》 The re-appointment of a representative director shall be opposed if it is determined that the stock value is being continuously harmed from the perspective of performance or capital efficiency, and future improvement cannot be expected. As a rule, outside directors or Audit & Supervisory Board members shall be opposed in cases in which their independence in the exercise of the expected management oversight functions or audit functions cannot be ensured. Moreover, when a certain number of independent outside directors are not appointed, and the reason for such is deemed to be invalid, the re-appointment of the representative director shall be opposed. When trust in the company has been seriously damaged due to executive misconduct or illegal business activities, and corporate performance or stock prices have been impacted or may be impacted, the relevant directors shall be opposed.

[Compensation of Directors and the Audit & Supervisory Board Members/Retirement Benefits] Although we are generally in favor of introducing a performance-linked compensation system, it shall be opposed when it is deemed that payment to outside directors has a strong incentive factor. As a rule, payment of retirement benefits to outside directors or Audit & Supervisory Board members shall be opposed.

[Stock Options/Stock Compensation System] We have set the judgement criteria as whether or not it contributes to an improvement in corporate value as a long-term incentive.

[Capital Policies] Judgements shall be made regarding dividends and treasury stock acquisitions, in consideration of business performance trends and financial conditions.

[Anti-takeover Measures] As a rule, we oppose anti-takeover measures.

● Status of Exercising Voting Rights (Including Status of Dialogues)

Taiyo Life, Daido Life

Taiyo Life and Daido Life exercised their voting rights on proposals at Shareholders' Meetings held between July 2019 and June 2020. Such exercise was conducted after holding dialogues with investment targets as necessary, in accordance with the criteria for determining the exercise of voting rights.

《Status of Dialogue》

Taiyo Life and Daido Life emphasize dialogue with investee companies. Through proactive dialogue with investee companies, Taiyo Life and Daido Life work to verify the circumstances faced by management and share an awareness of issues while continuously taking steps to help increase shareholder value.

▶ Examples of companies with whom Taiyo Life and Daido Life engaged in dialogue

- Companies whose ROE fell below a certain threshold
- Companies issuing dividends despite having reported a net loss
- Companies not paying adequate shareholder dividends despite having adequate resources
- Companies with substantial doubts regarding the independence of candidates for independent outside director
- Companies that proposed the introduction/continuance of anti-takeover measures
- Companies whose audit & supervisory board members to be re-appointed had served long terms
- Companies paying retirement bonuses to outside directors and Audit & Supervisory Board members who should be monitoring the status of management
- Companies that introduced or increased executive compensation such as granting stock acquisition rights or restricted shares
- Companies paying incentive compensation to outside directors and Audit & Supervisory Board members who should be monitoring the status of management
- Companies that have been involved in misconduct or other such incidents

《Status of Exercising Voting Rights》

Taiyo Life and Daido Life reject proposals in cases where problems are not rectified despite constructive dialogue, cases where shareholder value is highly likely to be impaired and in certain other circumstances.

The results of voting rights of shares listed on domestic markets exercised at general meetings of shareholders held by domestically listed companies between July 2019 and June 2020 are as follows.

Type	Taiyo Life					Daido Life				
	Approve	Reject	Abstain	Carte blanche	Total agenda items	Approve	Reject	Abstain	Carte blanche	Total agenda items
Company proposals	186	1	0	0	187	476	9	0	0	485
Surplus appropriation	39	0	0	0	39	107	0	0	0	107
Director appointment*1	65	1	0	0	66	136	2	0	0	138
Corporate auditor appointment*1	44	0	0	0	44	131	2	0	0	133
Partial change to Articles of Incorporation	15	0	0	0	15	29	0	0	0	29
Payment of retirement bonus	2	0	0	0	2	10	0	0	0	10
Change to officer compensation	7	0	0	0	7	22	0	0	0	22
Issue of stock acquisition rights	8	0	0	0	8	24	0	0	0	24
Appointment of accounting auditors	2	0	0	0	2	3	0	0	0	3
Reconstruction related*2	0	0	0	0	0	0	0	0	0	0
Other company proposals*3	4	0	0	0	4	14	5	0	0	19
Of which, antitakeover measures	1	0	0	0	1	2	5	0	0	7
Shareholder proposals	0	8	0	0	8	0	27	0	0	27
Total	186	9	0	0	195	476	36	0	0	512

*1 Regarding appointments of multiple candidates, if even one candidate was voted against, it is counted as "Reject."

*2 Includes mergers, business transfers, share exchanges, stock transfers, and company splits.

*3 Includes share buybacks, decrease in legal reserve, increase through third-party allotment, decrease in capital, reverse stock split, officer bonuses, antitakeover measures, and income statement approval.

● Self-evaluation

Between July 2019 and June 2020, Taiyo Life and Daido Life performed self-evaluations of the status of implementation of each of the Principles in this code. The evaluations of both companies determined that activities were carried out steadily, in accordance with the policies on the Principles.

T&D Asset Management

《Status of Dialogues》

T&D Asset Management uses opportunities such as individual and small meetings with companies to hold constructive dialogues that promote sustainable growth from such perspectives as business strategy, capital efficiency, shareholder return, and ESG. In the period between July 2019 and June 2020, meetings were held with 239 companies. Examples of the resulting dialogues are presented below.

- ① We asked a food manufacturer to present a concrete long-term vision, including capital policies. Despite its ample internal reserves, the company was less willing than its peers to return profits to shareholders and did not invest enough in long-term growth. We therefore thought it needed to provide a clear explanation of how it planned to use the funds. The company is currently drawing up a new medium-term management plan to be launched next year, and while it is not yet able to provide a clear strategy, it has responded that it would like to incorporate the opinions of investors as much as possible.
- ② We held a dialogue with an automotive-related service company about effective ways to disclose ESG-related data. During the meeting, the company said that it would be difficult to compile and disclose direct figures such as reductions in CO₂ emissions and car accidents through its core business. We asked them to proactively disclose numerical data that could be aggregated, such as the scale (number and amount) of the use of services linked to reductions in CO₂ and accidents. That would enable investors to estimate the extent to which the company contributed to solving the environmental and social problems of their business, even if definitive figures could not be released. Our proposal was agreed by the company.
- ③ We held a dialogue with an education-related company to discuss succession planning for its founding president. The company's president will retire at age 70 and become the chairman. When this happens, the company wants to transition to a system that clearly separates the management and day-to-day business (education) roles, with the chairman (CEO) in charge of management and the president (COO) in charge of the day-to-day business (education). In addition, the company's personnel capable of leading in the education role has been steadily growing. We communicated our belief that they needed to train not only education staff, but also successor personnel capable of leading in the management role, and they agreed with this.

《Status of Exercising Voting Rights》

T&D Asset Management deliberates and decides upon matters relating to stewardship activities, including the exercise of voting rights at the Stewardship Activity Committee. The committee is chaired by the Chief Investment Officer, and its membership consists of members in charge of the Investment Management Department and the Legal & Compliance Department, as well as external members. As for the exercise of voting rights, a representative draws up proposals based on the Guidelines for Exercising Voting Rights, and the chairman makes a determination after taking into account input from the Stewardship Activity Committee. Reform or abolition of the guidelines for exercising voting rights is discussed at the Stewardship Committee and reviewed as necessary. Under these procedures, T&D Asset Management voted against 695 proposals submitted by the companies (8.9% of the total) between July 2019 and June 2020. In addition, examples of the status of exercising voting rights are provided below.

- ① In proposals for the selection of directors, it opposed the re-appointment of a representative director if it determined that the stock value was continuously harmed from the perspective of performance or capital efficiency, and future improvement could not be expected.
- ② In proposals for selection of outside directors or outside audit & supervisory board members, it opposed candidates for whom it determined that independence could not be ensured. As a specific example, it opposed candidates from major shareholders and major business partners.
- ③ It generally opposed proposals relating to the continuation or introduction of anti-takeover measures.