

SUSTAINABILITY: A JAPANESE BLUEPRINT

Japan is no stranger to economic transformation plans. The world's third largest economy has lived with stagflation for three decades and various prime ministers have been tasked with fixing the problem.

Now the government is working towards two major economic outcomes after setting a target to be carbon neutral within 30 years. Switching from a dependency on fossil fuels to renewable sources is not going to be easy.

Japan's Asset Management One is playing its part by vowing to make its portfolios carbon neutral by 2050. Working with policymakers and corporate boardrooms as well as collaborating with other professional investors around the world are part of its strategy.

In the following pages the asset manager discusses its plans and the core issues it is tackling to make the world more sustainable.





Asia and Beyond

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**Creating a sustainable future
through the power of investment**



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In November, Akira Sugano, CEO of Asset Management One (AMO), travelled to Glasgow to participate in the United Nations Climate Change Conference (COP26) as well as the World Climate Summit. The message he brought with him was one of leadership, active engagement and collaboration – all components of Japan’s transformation to sustainability.

ESG and sustainability have become prevalent buzzwords, not only in Japan but globally, proliferating media headlines as well as daily conversations. Due to its heavy dependence on fossil fuels, many critics were sceptical of Japan’s commitment to achieving meaningful levels of decarbonisation. These critics, as well as the world, took notice in October 2020 when former Prime Minister Suga pledged that Japan would achieve carbon neutrality by 2050. The commitment was followed by an interim government plan to achieve a 43% reduction in greenhouse gas (GHG) emissions by 2030 (in comparison to 2013), coupled with an ambitious revision to the government’s energy source plan, decreasing fossil fuel dependency and replacing it with renewable energy.

A few months later, in December 2020, the Net Zero Asset Managers initiative (NZAM) was established. The initiative is composed of global asset managers aiming to achieve net zero GHG emissions. As one of the 30 initial signatories and the only Japanese firm amongst the founding members AMO set a precedent. Just shy of its one-year anniversary, NZAM’s membership increased to 220 members by November, representing approximately \$57trn (£42.7trn) in assets under management (AUM). NZAM’s signatories have committed to supporting the goal of net zero GHG emissions by 2050, which aligns with global efforts to limit warming to 1.5°C. These global asset managers have also committed to setting an interim target for the proportion of their assets to be managed in line with the attainment of net zero emissions by 2050 or sooner, by working with asset owners and clients on decarbonisation goals. AMO has set an ambitious target of ¥30trn (£200trn) worth of AUM (53% of their AUM, as of March 2021) as its 2030 interim goal, on the path to achieving GHG emissions by 2050 or earlier.

Perpetuating this call to action amongst the asset management industry, in early 2021 Mr Sugano spearheaded an project, redefining AMO’s *raison d’être* and corporate purpose: “Creating a sustainable future through the power of investment.” This aptly captures the firm’s aspiration and reflects its commitment to net zero. As an asset manager, AMO is committed to working with all constituents in the investment chain to accelerate the transition towards net zero in three areas:

1. We will strive to increase the amount of assets managed that align with the net zero initiative. This includes offering active strategies which invest in companies possessing the ability to

increase their enterprise value whilst working toward the net zero goals. From quantitative and qualitative perspectives, we will assess investee companies and direct capital to support those demonstrating an active commitment and make solid progress in achieving net zero. For passive strategies, we are planning to launch passive products with a focus on engagement to encourage a wider range of companies to act and make the transition towards net zero. This approach will enable AMO to raise awareness and drive action across the entire market, including companies that have not yet taken the necessary steps, as well as those already working towards net zero goals.

2. Through engagement, the firm is a proactive proponent of encouraging companies to transform their business models towards increased sustainability and decarbonisation. Rather than simply divesting from the companies that are not yet fully aligned with the net-zero scenario, our priority is to engage with them. Our goal is to gain a holistic understanding of the company which allows us to have a constructive dialogue to bring about improvement and positive changes. Where there is no evident progress despite this engagement, we will consider opposing the election of directors at the respective companies.

3. We will continue working with policy makers and other organisations to strengthen ongoing efforts towards achieving net zero goals by 2050. This is exemplified by AMO’s participation in climate change and environment-related study groups and initiatives established by the Ministry of Economy, Trade and Industry and the Ministry of the Environment.

AMO is one of the few Japanese asset managers to join Climate Action 100+ (CA100+), an engagement initiative launched in 2017 to ensure the world’s largest corporate GHG emitters take remedial actions. Together with a US public pension fund, AMO has been co-leading the engagement with a major Japanese automotive company, as part of the joint efforts to achieve the CA100+ goals. In this instance, the foreign asset owner offers a more global perspective, while AMO offers a local context on ESG. Such collaboration has enabled AMO to build stronger ESG engagement with the company for positive impact and solutions.

In its first sustainability report issued in October, AMO revealed its holistic approach in tackling sustainability issues and provided conceptual guidelines and examples of implementation. To identify issues and better understand their importance to the global environment and society AMO created a framework to analyse and plot these “barriers” based upon sustainable and financial materiality.

When identifying global environmental and social issues, the firm is guided by information sourced from businesses, NGOs

and the World Economic Forum to map the materiality without being bound by existing ESG factors. The barriers are segmented into four broad categories: environmental, geopolitical, social and technological.

Sustainable materiality plotted on vertical axis, is an indication of the global society’s level of interest in environmental and social issues. Financial materiality on the horizontal axis, focuses on economic impact and reflects important themes whilst indicating the level of economic impact from and on corporate activities. The materiality map indicated by these two axes is considered by AMO as a compass for creating a sustainable future through the power of investment.

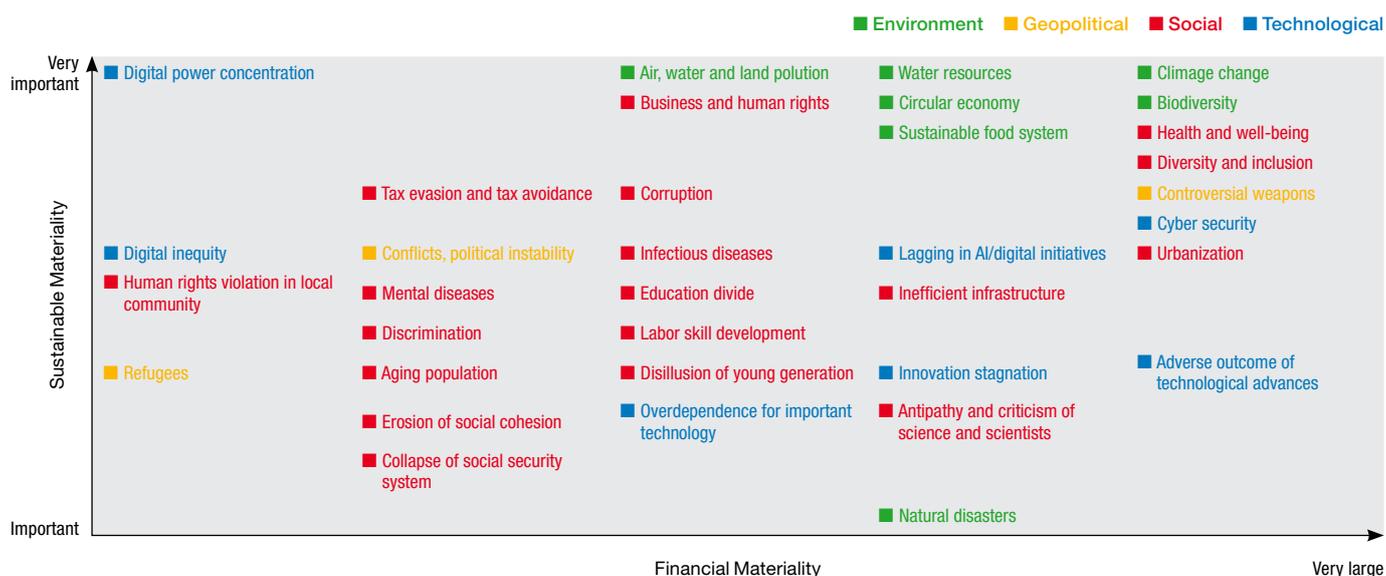
In parallel with the materiality map, AMO has recognised nine core issues to economic and societal materiality: climate change, biodiversity, health & wellbeing, diversity & inclusion, water resources, circular economy, sustainable food system, air, water and land pollution, and business & human rights. Subsequently, we have selected three areas: 1. Climate change, 2. Biodiversity and environmental

destruction, and 3. Human rights and health & wellbeing within which AMO can contribute to solving issues as an investor and are also common for the individual company and the entire supply chain. In the future, areas of focus will be the central axis for our engagement proxy voting and investment decisions, and applied to the firm’s wide-ranging business activities, including product strategy and corporate sustainability.

We will engage on these issues alongside the traditional dialog focusing on strategy and governance disclosure, items which form the basis of sustainable corporate activities.

AMO is committed to leading the sustainability transformation whilst advocating for and instigating change in Japanese corporate culture and society. Climate change is an urgent global issue and a complex challenge interconnecting multiple issues across a spectrum of disciplines. It is essential for all stakeholders, including governments, companies and consumers, to work in co-operation towards resolving this ever-changing issue.

Materiality Map



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