



Fund Sakura

Cultivating Alpha and Impact Beneath the Sakura Blossom

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POLYMER TEAM R-PHA

Executive Summary

Task

How can R-pha Maximize Alpha and Impact with Fund Sakura?

Objectives

Japanese market has been underperforming in S and G

TSE Reforms facilitate companies to improve capital efficiency

TSE Reforms increase shareholder returns and ROE

Strategy

Our smart beta strategy focuses on Japanese stocks with strong or potential social and governance qualities, excludes unsustainable businesses, and emphasizes companies with a sub-1x P/B ratio or substantial excess cash reserves, creating a refined and attractive investment portfolio

Results



29.7%

LTM Cumulative Return



20%

Proposals Accepted by 2026



60%

Job Satisfaction Rate By 2035



30%

Women and Independent Board Member by 2030

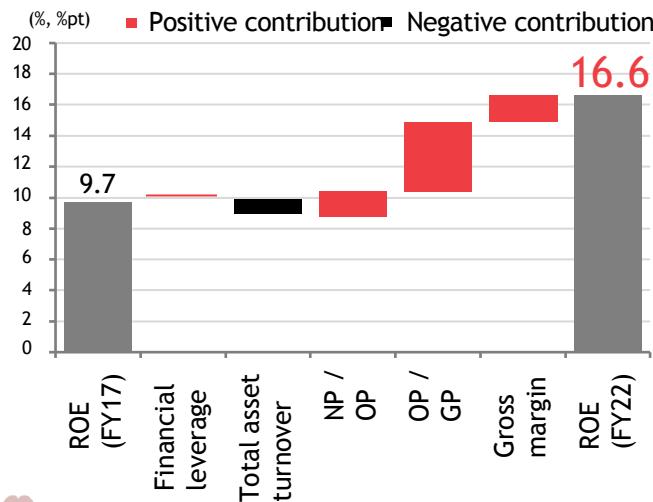


<15%

Consolidated Net Assets as Target for the Reduction of Value of Strategic Holdings by 2035

Japanese stocks are shifting towards shareholders with promising return thanks to TSE reform

1 Dupont analysis of companies with most ROE improvement (vs past 5 years)



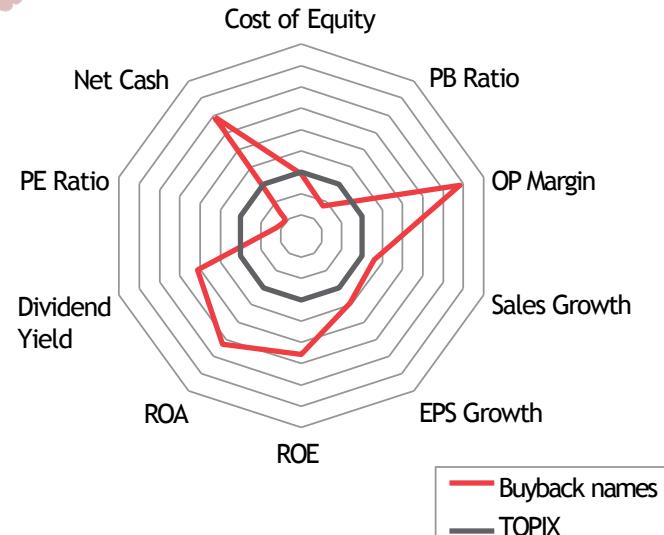
Explanation

Over the past 5 years, the companies that have **improved ROE** have done so by expanding margins, while **financial leverage has continued to deter**

Insights

Market's focus will now shift to companies with **excess cash** sleeping on the balance sheets as these companies are subject to the **TSE reform**

2 Companies that announced buybacks



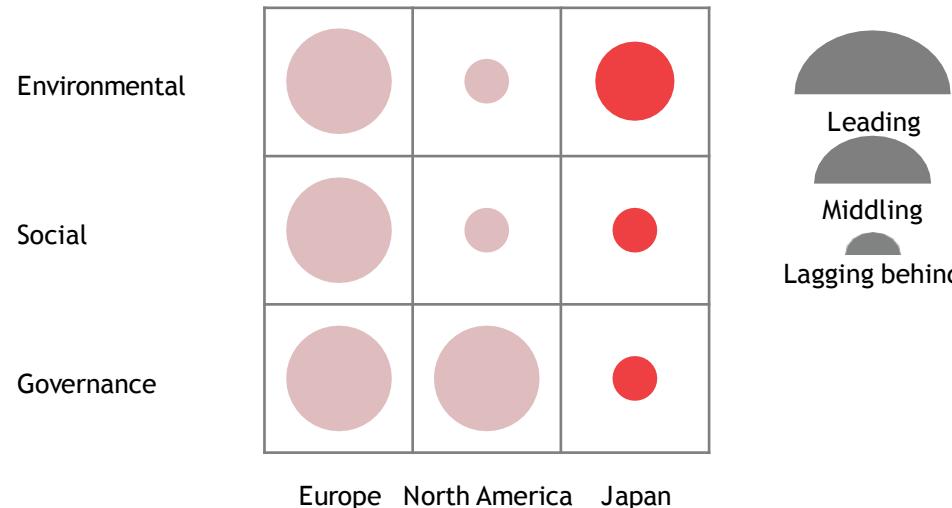
TSE's call for Japanese companies to **expand shareholder returns** with a stronger awareness of share prices and cost of capital, prompting c.300 **sub-1x P/B** companies to announce plans of **share buybacks** and **dividend hikes**

Companies with **ROE below cost of capital** to be targeted for reforms in earnest since TSE is now requesting corporations to improve capital efficiency, improving investor returns

TSE reform leads to governance restructuring that reshapes the ESG landscape of the Japanese market

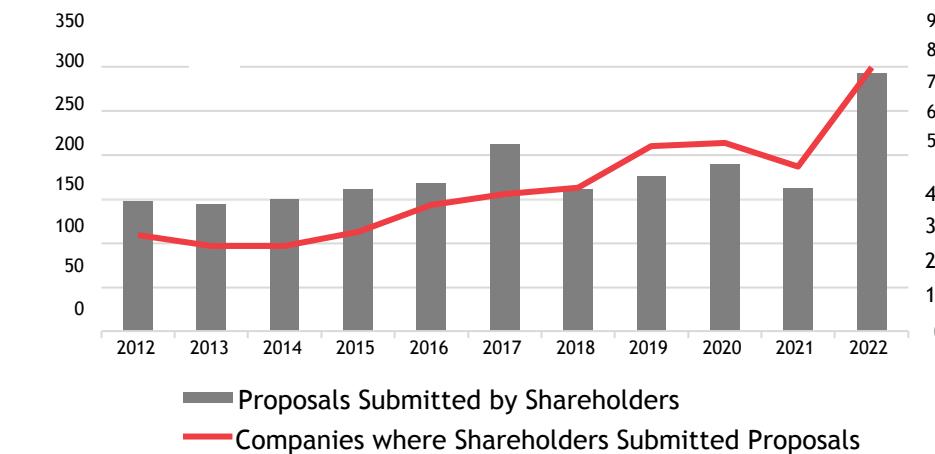
1 Japan has opportunity to unlock greater value in S & G performance

Environmental, social, and governance (ESG) performance (large and smaller companies combined):



3 Increasing engagement level of shareholders

292 proposals at 77 companies as of H2 2022



2 Japanese consumer sector is getting more ESG

We can see the sector buys into sustainable procurement



has introduced a feedback system to hear complaints



would independently audit coffee bean purchases



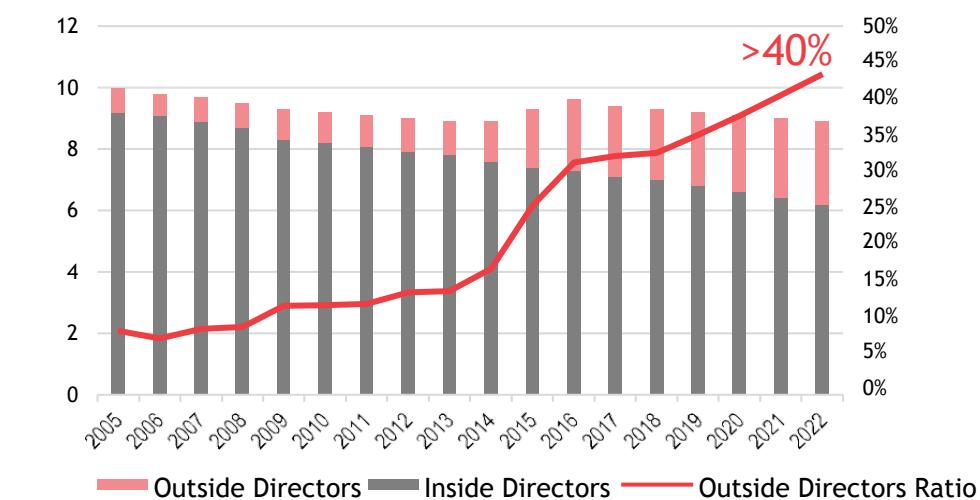
launched an initiative in 2022 to support farmers' incomes



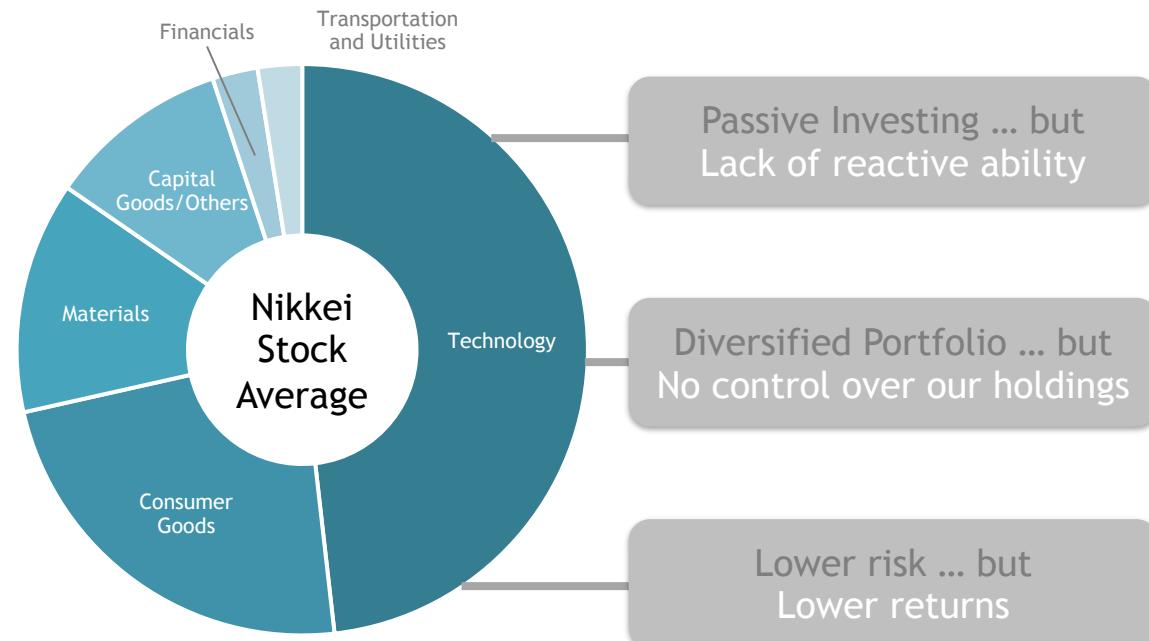
is examining its operations in Africa especially into the problems of low wages and child labor

4 More independent directors

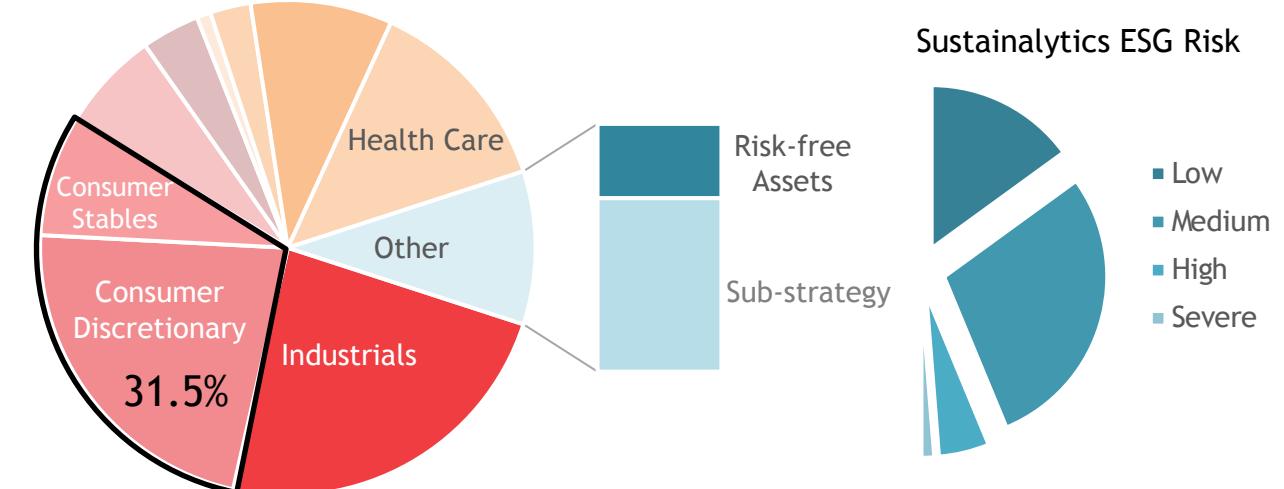
Reaching over 40% in 2022



Our Portfolio Strategy

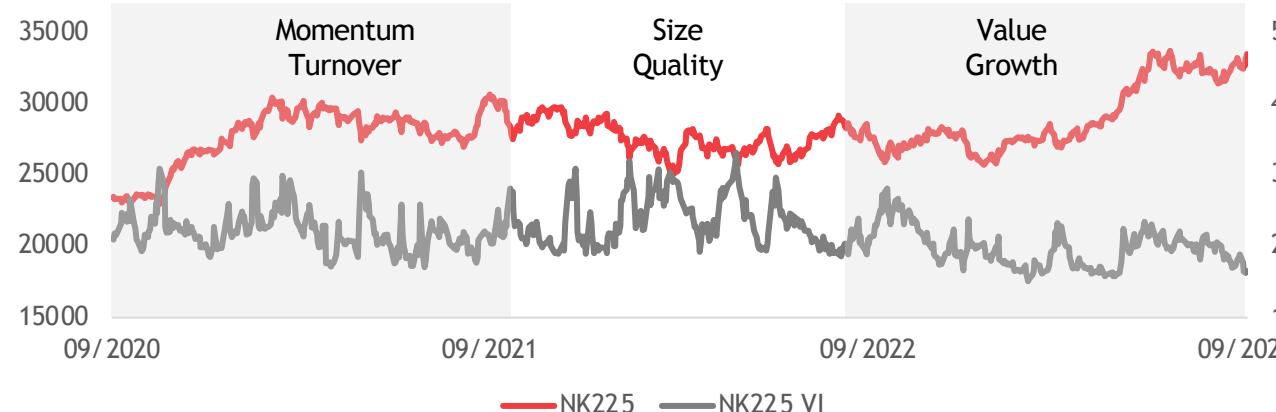


Fund Sakura's Portfolio Holdings



Monte Carlo Simulation of Portfolio Returns

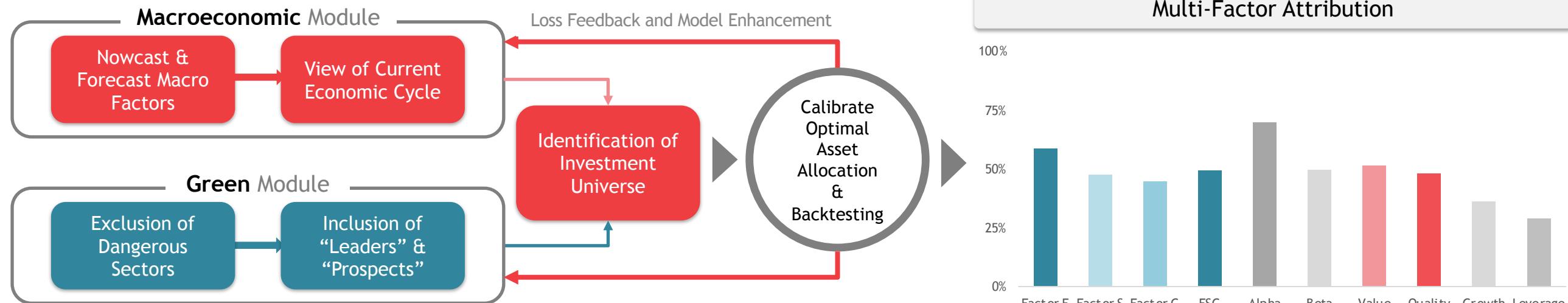
Fluctuations of Nikkei 225 and its Volatility Index Over Time



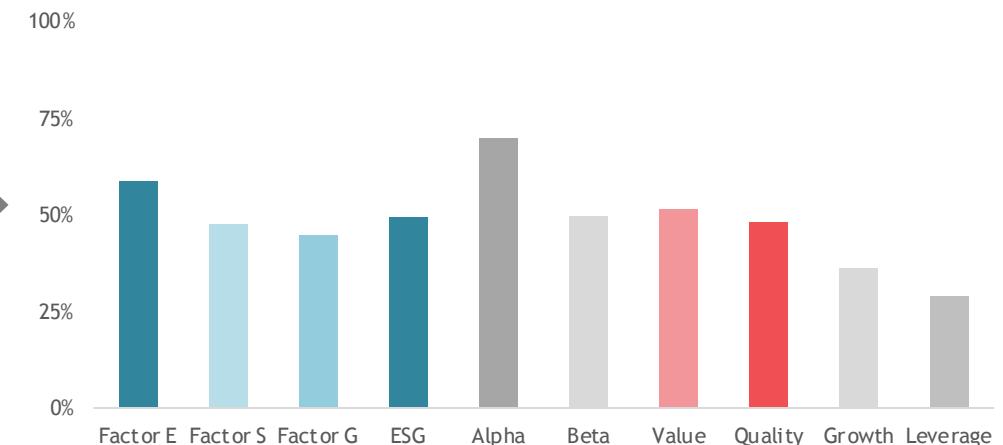
Source: Capital IQ, Morningstar, Bloomberg Finance L.P.

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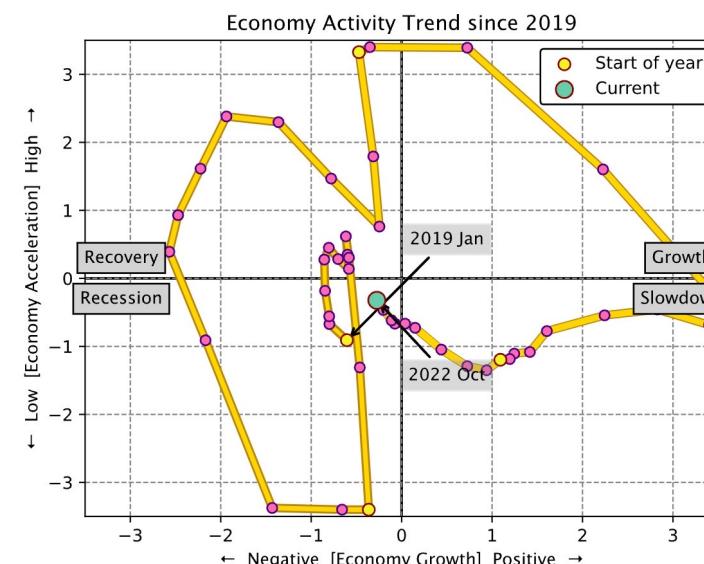
Our Portfolio Strategy



Multi-Factor Attribution



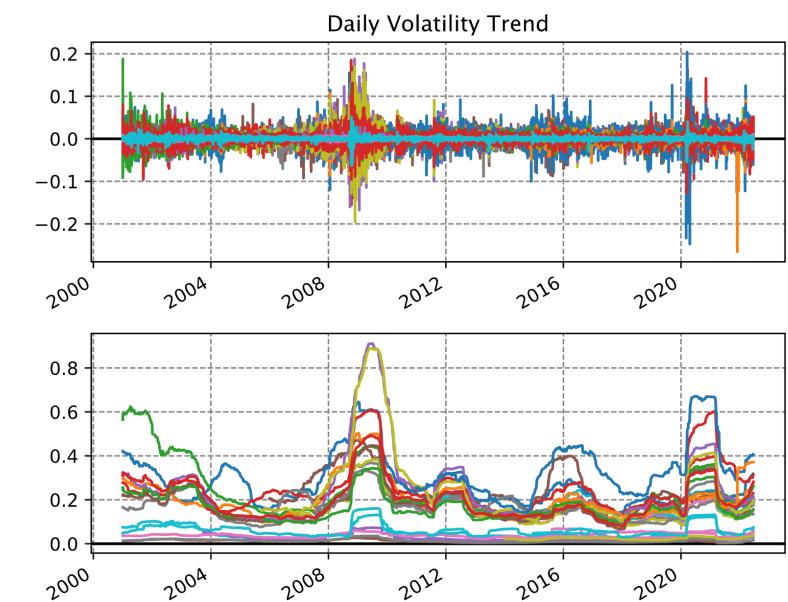
The case of FY2022-2023 is evidence for the success of smart beta/factor investing. As a demo of our model, the investment process is shown below:



All companies listed in TSE Prime (1,832 names)

PBR sub-1x companies (921 names)

Announced Buybacks (193 names) Both (36 names) Raised Dividends (159 names)



Most academic research agrees on the positive correlation between financial performance and good corporate governance

1 Board diversity:

Japanese corporations are encouraged to appoint women and non-locals to their board of directors

30%

Women and Independent
Board Member by 2030

2 Cross shareholdings:

Corporations are required to draw up targets for reducing the ratio of cross shareholdings

<15%

Consolidated Net Assets as Target for
the Reduction of Value of
Strategic Holdings by 2026¹

3 Shareholder Proposal:

Corporations are required to disclose detailed plans for achieving net zero carbon emissions in line with the TCFD framework

20%

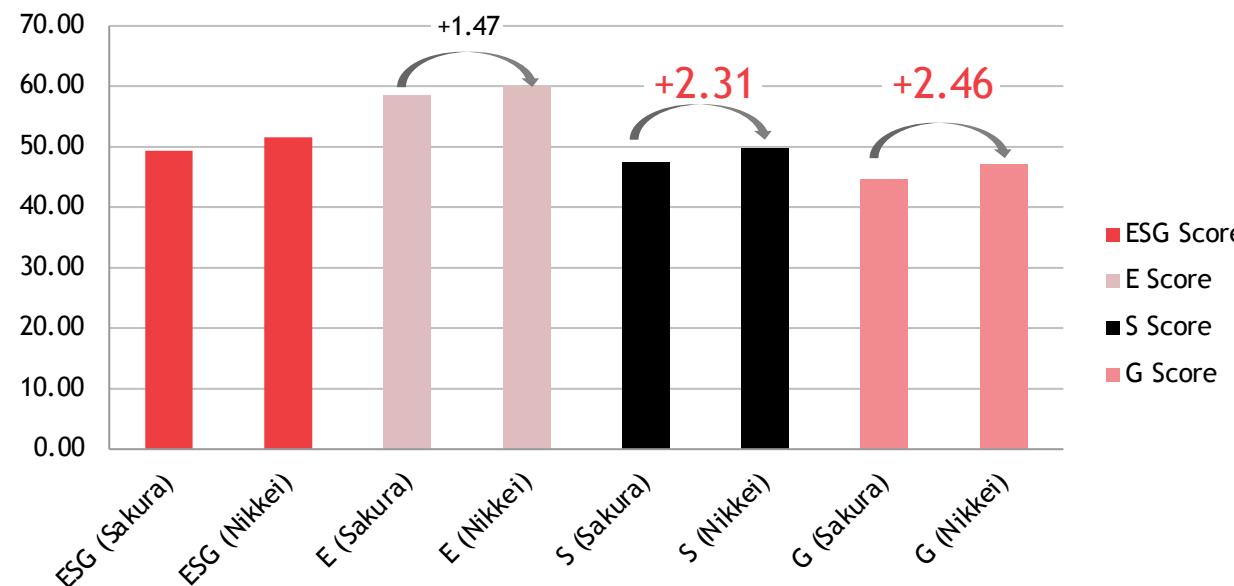
Proposals Accepted by 2035²

60%

Job Satisfaction Rate
By 2035³

4 ESG Score vs Nikkei Stock Average

We expect improvements and surpassing Nikkei 300 in 5 years

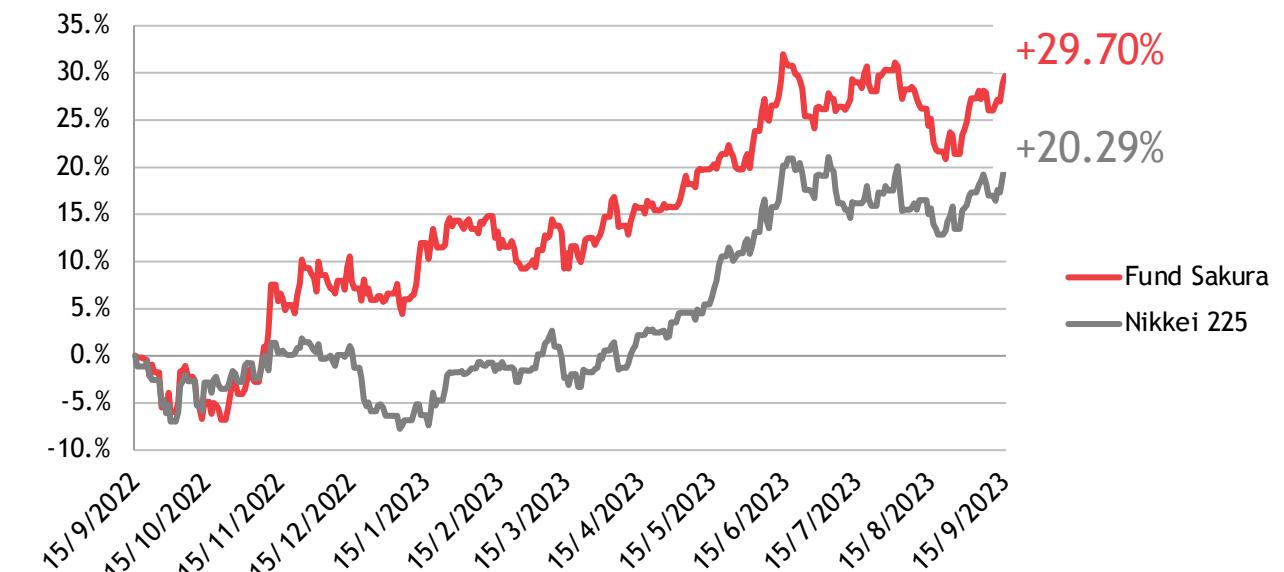


Note: 1) With reference to the announcement by Nissin and Toppan. 2) Mitsubishi UFJ Trust and Banking: 10% of shareholder proposals were passed at Japanese companies in 2022. 3) Randstad: 48% of Japanese employees are satisfied with their jobs in 2022.
Source: Capital IQ, Mitsubishi UFJ Trust and Banking, Randstad

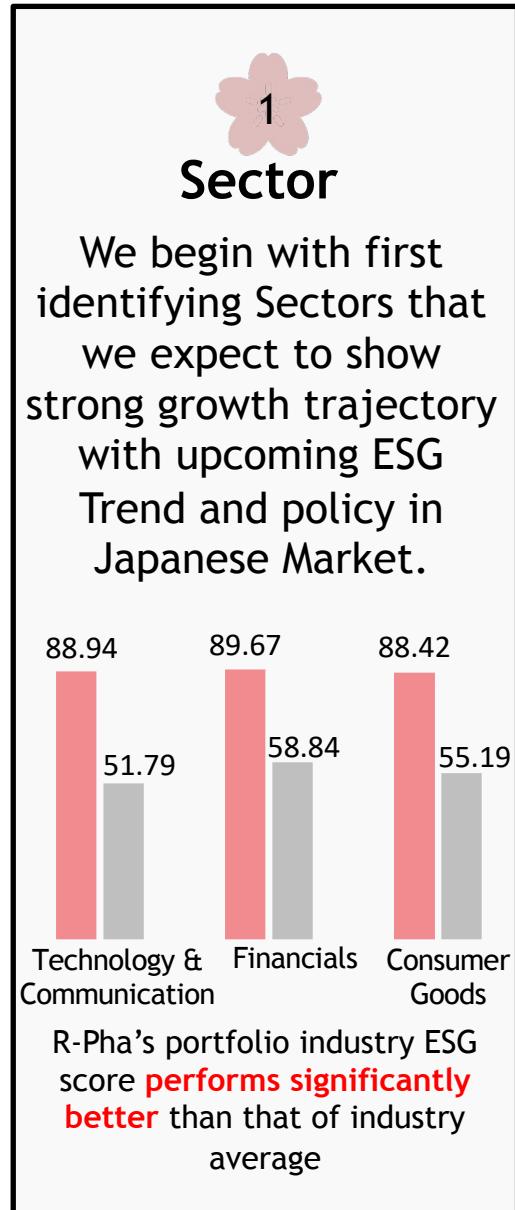
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5 Fund Sakura LTM Cumulative Returns

Fund Sakura could achieve a return of 29.7%, surpassing the Nikkei 225 index for 9.4%



Integrating the ESG Trifecta: Path to Sustainable Returns



“With rigorous ESG integration, R-Pha Sakura Fund scores higher in ESG Metrics than Benchmark”

Fortifying Impact: Our Proactive Engagement Strategies



Active Ownership and ESG Engagement

- Demanding positive progress with companies to drive positive changes
- Exercise proxy voting, holding boards and management teams accountable
- Ownership rights exercise on issues such as Board quality and effectiveness

Direct Engagement with Companies

- Engagement with companies' Investor Relations via email or calls
- Followed by conference calls or meetings with technical experts

Thought Leadership in Sustainable Investment

- Conducts monthly value-added research and publications
- Ensures Sustainable investing quality control
- Facilitates weekly knowledge sharing with clients and internally
- Key focus areas include Woman on Board, Governance and the SDGs
- Embed our work in applied research to drive industry best practices
- Produce insights and thought leadership on Sustainability Themes

Annual Stewardship Reporting and Engagement Measurement

- Produce an annual stewardship report that combines comprehensive details
- Including our engagement impact measurement and proxy voting record
- Enhance transparency and insights into our stewardship efforts
- This report provides a holistic record of our active ownership strategies

Implementation Timeline

Looking into the future ...



Initiation
Begin net zero transition in Japanese equities

Yield Curve Control
As YCC range becomes larger, market becomes more volatile

Elongation
Active engagement Sub-strategies

ESG Materiality
Aging Population, Scope 3 Emissions, and more

Termination
Attain full net zero target while balancing trade-offs

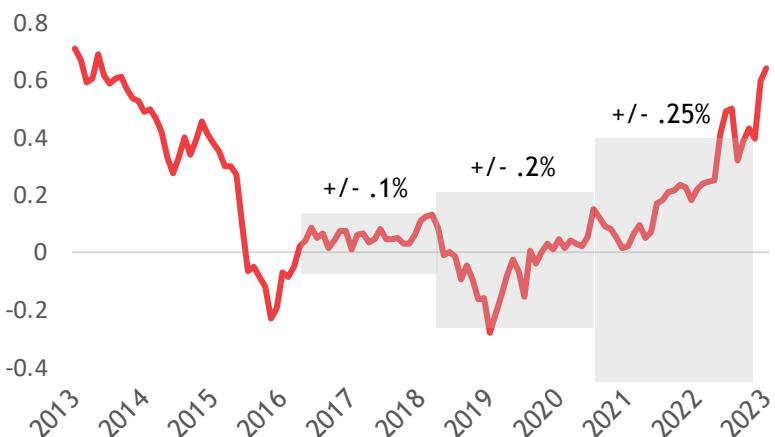
>20% proposals accepted by 2026



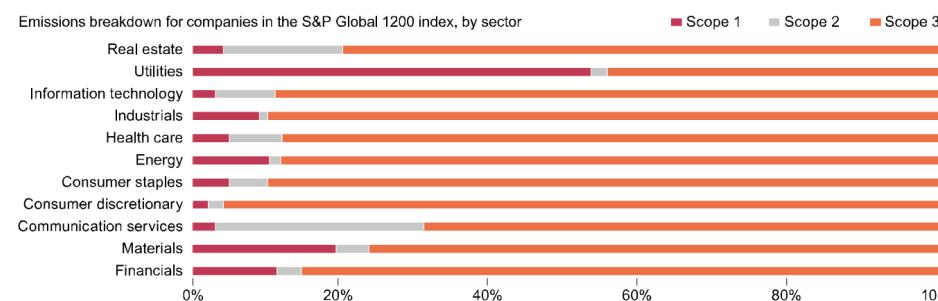
60% Job Satisfaction Rate by 2035



Japan 10-year Government Bond Yield



Scope 1-3 Emissions by Sector



30% Women and Independent Board Member by 2030



<15% Consolidated Net Assets as Target for the Reduction of Value of Strategic Holdings by 2035

Guarding Against Greenwashing: Ensuring Genuine Impact

Portfolio News Screening

Screen

Rigorously screen news for **breaches of global standards**, including the United Nations Universal Declaration of Human Rights, ILO labour standards, UNGPs, UNGC, and OECD Guidelines, **for all portfolio holdings**



Controversy Board

Evaluate

Establish Controversy Committee, companies are given a **3-6 month window** for **ESG improvement plans**. If progress is unsatisfactory, we **take action** before the full-term elapses, fostering **corporate accountability**



Engagement Tracking

Audit

Prioritize risk mitigation through rigorous auditing. Our **annual ISAE report** includes external audits of active ownership controls to assess their robustness and effectiveness in managing potential risks. Our **internal audit department** plays a pivotal role in **overseeing** Sustainable Investing (SI) and stewardship activities

IAASB

ISSB

Engagement Effectiveness

Collaborate

Check for effective **collaboration options** for topics R-Pha prioritizes, like investor meetings, joint letters to company boards, or co-filing shareholder proposals



Other downside risks and mitigation plans that defend our strategy

Macroeconomic Deterioration

A worsening of economic conditions could hurt demand and earnings for many companies

By focusing on governance...

We can focus on quality companies with strong balance sheets that can weather downturns

Rising Costs

Input cost inflation, higher wages, supply chain issues could compress profit margins

By focusing on governance...

We improve pricing power or productivity of companies by engagement

Foreign Exchange

Appreciation of the yen could hurt exporters and multinationals

To make a social impact...

We can hedge by investing in domestically-focused companies

Tighter Regulations

Tighter regulations or bans on products/services could impact certain sectors and companies

By making ESG impact...

We can engage with regulators and have business diversity to withstand regulatory changes



Andy Lo

Investment Analyst



King Tai

Risk Analyst



Khalil Mahmood

ESG Analyst



Appendix: TSE Reform Details

New principles added to achieve higher governance on Prime Market

- Making electric voting platform available
- Disclosure of English materials
- Disclosure of risks & opportunities analysis of climate change (TCFD)
- Minimum 1/3 of independent directors on board committees
- Minimum 1/2 of independent directors on board committees if companies are the controlling shareholders
- Minimum 1/2 of independent directors on nomination and remuneration committees

		Prime Market		Standard Market		Growth Market				
Liquidity	No. of Shareholders	Initial	At least 800 shareholders	Initial	At least 400 Shareholders	Initial	At least 150 Shareholders			
	Continued	Continued		Continued		Continued				
	No. of Tradable Shares	Initial	At least 20,000 units	Initial	At least 2,000 units	Initial	At least 1,000 units			
	Continued	Continued		Continued		Continued				
	Tradable Share Market Cap	Initial	At least JPY 10 bn.	Initial	At least JPY 1 bn.	Initial	At least JPY 0.5 bn.			
	Continued	Continued		Continued		Continued				
Governance	Trading Value	Initial	At least JPY 25 bn. mkt. cap	Initial	At least monthly avg. 10 units	Initial	—			
	Continued	Continued		Continued		Continued				
	Tradable Share Ratio	Initial	At least 35%	Initial	At least 25%	Initial	At least 25%			
	Continued	Continued		Continued		Continued				
Business Condition	Governance Code applied	Fully applied (Including higher standard)		Fully applied		Only basic principles applied				
	Business Performance	Initial	Total profit for recent 2 yrs., at least JPY 2.5 bn.	Initial	Profit at least JPY 0.1 bn. In the most recent yr.	Business Plan: - Reasonable business plans in place - Disclosure on high growth potential - Principle underwriter submits its opinion Market Capital: JPY 4 bn. from 10th yr. of IPO				
			Sales at least JPY 10 bn. & market cap at least JPY 100 bn.							
	Financial Status	Continued	—	Continued	—					
		Initial	At least JPY 5bn.	Initial	Positive					
		Continued	Positive	Continued						

Appendix: Screening Methodology

Initial universe: Nikkei Stocks

Determine initial ESG eligible universe

Environmental

- Climate change
- Natural resource usage
- Waste management

Social

- Health and safety
- Labor management
- Product safety and quality

Governance

- Board
- Accountability and transparency
- Business ethics

Controversies

- Environment
- Customers
- Human rights and community
- Labor rights and supply chain
- Governance

Controversial business involvement

- Alcohol, tobacco and gambling
- Weapons and firearms
- Nuclear power
- Sudan (NUEM only)

Assesses issuers' exposure to and management of ESG-related risks and opportunities, and involvement in controversial businesses or events.

Select “best in class” ESG Leaders and ESG Prospects in each industry

- Sector allocations ranked by ESG and controversy score

Carbon screen

- Absolute carbon emissions
- Carbon intensity
- Potential future carbon emissions

Selects top ESG ranked companies and companies with potential within each industries.

Benchmark constituents

- Holdings limit to 1% - 10 %
- Rebalance frequency: quarterly and annually
- Rebalancing based on macroeconomic module and green module

Selects companies based on current and future carbon emissions, with the objective of maintaining a portfolio with a significantly lower carbon footprint than the Base Index. Companies that own fossil fuel reserves are ineligible for inclusion.

Appendix: Stock Picks of R-pha

Leader				Potential Improvement				Leader				Potential Improvement			
Companies	Notes	Companies	Notes	Companies	Notes	Companies	Notes	Companies	Notes	Companies	Notes	Companies	Notes	Companies	Notes
Sojitz (2768)	A board made up of four internal directors and four outside directors (two of whom are women) since FY2021 has strived to strengthen supervision of operations.	Mitsubishi Corporation (8058)	There is also an international advisory committee consisting of a majority of overseas directors; support for diversity and international perspectives, views of overseas directors regarding geopolitical risks and global trends also taken into account.	NSK (6471)	At FY2022 results, NSK announced plans to buy back up to ¥22 billion worth of shares (4.8% of shares outstanding), eliminate takeover defenses, and reduce cross-shareholdings.	SMC (6273)	Leading women executives from overseas have been appointed to the board, and the company is also replacing its long-time accounting auditor. Additional initiatives include establishing a voluntary nomination and remuneration committee with a majority of independent outside directors.								
Ajinomoto (2802)	Adopted the “company with three committees” organization. For the board of directors, Ajinomoto considers the number of members, the percentage of internal/outside directors, the percentage of directors and executive officers, etc. The outside directors comprise a majority, and the chair of the board is an outside director.	Toyo Suisan (2875)	The company’s organizational design is a company with a board of auditors. We see some potential for improvement in its discussion of capital policy.	Renesas Electronics (6723)	The company’s Board of Directors consists of five members, four of whom are outside directors, and one is a woman. We positively note its diverse board members, of whom 80% are outside directors, 20% are women, and 20% are foreigners. Management in each business proactively hire personnel with a global mindset.	Nidec (6594)	With a solution in sight for finding a successor, which had been a long-standing concern of investors, we expect management transparency to improve at Nidec.								
SHIFT (3697)	The Board of Directors has nine members, five of whom are outside directors (56%), and the Audit & Supervisory Committee has three, all of whom are outsiders (100%). Excluding the founders, most directors are from outside the company.	GMO Internet Group (9449)	The company has had a takeover defense strategy in place since 2006. It decided to make some changes last July, announcing that a shareholders’ meeting would be convened to give shareholders an opportunity to weigh in on the pros and cons of this.	Sony Group (6758)	The board of directors consists of 10 members, including seven external members (as of April 2023). Of these, 30% are foreigners and 40% are women. Furthermore, to promote diversity and inclusion (DEI) in the group, Sony will focus on women, people with experience at other companies, and foreigners.	Mitsubishi Electric (6503)	Since improper quality control practices came to light in June 2021, the company president has formed three reform promotion offices under his direct control, and they have been working on reforms (quality assurance culture, organizational culture, and governance reforms) to restore the trust that the company lost.								
Takeda Pharmaceutical (4502)	The Board of Directors consists of 4 internal members and 11 external members. Several outside directors have experience in mega pharma.	Eisai (4523)	The company has adopted a pioneering system for separating management oversight and business execution by appointing an outside director as the Board chair and having only one director concurrently serving as an executive officer serving as the representative corporate officer and CEO.	HOYA (7741)	Currently, six of the eight directors in total are external and two internal. In the same year, the company transitioned to a company with a nominating committee to ensure the effectiveness of management supervision.	Sumitomo Osaka Cement (5232)	The company is gradually making progress on selling cross-shareholdings and set a target reduction level in May 2022. The goal is to reduce the percentage of cross-shareholdings to less than 20% of net assets in two years and less than 10% in five years.								
Terumo (4543)	Successfully building up the many US companies it has acquired. We get the impression that the management teams at these subsidiaries have a good understanding of Japanese corporate culture, and we see signs of management system stability (five outside directors, six internal directors).	Olympus (7733)	The company has appointed a non-Japanese CEO and business unit leaders with a deep understanding of US and European markets and is reinforcing R&D and sales systems tailored to the needs of US hospitals. The company’s directors include a US investment fund.	Ricoh (7752)	Independent outside directors are the majority of Ricoh’s board. One part of director remuneration is fixed, and the other part is bonuses linked to earnings yardsticks including ROE, operating profit, and ESG factors, together with stock-based remuneration aimed at incentivizing the directors’ commitment to driving up shareholder value.	NEC (6701)	The new outside directors being appointed from 2023 have experience leading companies renowned for strong corporate governance, such as Omron’s former president, Yoshihito Yamada.								
Shiseido (4911)	53% of board members are outside directors, and 40% are women (as of March 2023), making Shiseido’s board of directors the most diverse within the domestic cosmetics industry.	Unicharm (8113)	The percentage of women directors is rising each year, prompting further diversity within the board.	Marui Group (8252)	There are 6 people on the board of directors, which is low for the size of the company, of which 3 are independent outside directors and 2 are women. With experts in engagement, investment, sustainability, and well-being as outside directors, the company aims to accelerate ‘co-creation sustainability management’ and further improve corporate value.	Seven & i Holdings (3382)	In 2023, the number of outside directors is poised to rise to 9 (60% of total) with the appointment of 2 new directors well-versed in global management and digital transformation.								
Bridgestone (5108)	Steadily reducing cross-shareholdings, and we think it has a healthy balance between shareholder perspectives and growth investments.	Toy ota Motor (7203)	The group’s cross-shareholding structure with suppliers has long been cited as a governance issue, but we believe that misconduct at group companies over the past few years could drive progress on initiatives aimed at improving governance.	Chiba Bank (8331)	Chiba Bank regularly discloses the results of stress tests related to credit risk for loans. In terms of interest rate risk, disclosure of foreign currency securities in particular is substantial. From an operational risk perspective, however, Chiba Bank became subject to an administrative action on June 23 for its solicitation and sales of structured bonds, so we will watch the development of measures to prevent recurrence.	Mebuki Financial Group (7167)	The actual total return ratio was high at 73% in FY2021 and 52% in FY2022, but Mebuki FG is the only leading regional bank that has not consistently hiked the dividend in recent years.								
JFE Holdings (5411)	The company has added the degree of achievement of KPIs related to its contribution to solving climate-change issues as an evaluation criterion for performance-linked remuneration for executives.	Nippon Steel (5401)	The company is already eliminating cross-shareholdings as part of asset reduction plans. From the perspective of business synergies, Nippon Steel made a tender offer for shares of Nippon Steel Trading to turn it into a consolidated subsidiary.	Tokio Marine Holdings (8766)	Management is highly aware of corporate value (share price) and constantly working to improve it, including accelerating the unwinding of cross-shareholdings. We are nonetheless watching to see whether the cartel allegations that emerged on June 19 in connection with corporate fire insurance develop into a compliance problem.	T&D Holdings (8795)	The CEOs of subsidiaries Taiyo Life Insurance and Daido Life Insurance are both members of the holding company’s board of directors, but management says that the executive and oversight functions will be separated going forward. We thus see potential for strengthening of the holding company’s governance.								
Recruit Holdings (6098)	Introduced ESG benchmarks linked to executive compensation. Recruit aims to increase the ratio of women among all directors and auditors to around 50% by FY2030.	Mercari (4385)	To optimize employee incentives after the IPO, Mercari was the first company in Japan to grant restricted stock units to 1,000 employees, mainly general employees, in 2018.	Mitsubishi Estate (8802)	The company’s governance framework is based on the committee structure. The independent director ratio is high in all cases: 50% for the board (7/14), 100% for the nomination committee (4/4), 100% also for the remuneration committee, and 60% for the audit committee (3/5).	Sumitomo Realty & Development (8830)	The company has had a take-over defense in place since 2007 and renewed it as recently as June 2022. It is now considering the abolition of this take-over defense, given a review of policies.								
Sega Sammy Holdings (6460)	To improve capital efficiency, Sega Sammy disclosed long-term quantitative targets for ROE and the debt-equity ratio. Sega Sammy’s eight-member board of directors includes two women and one foreigner, giving it a relatively diverse board compared with other game companies in our coverage.	Capcom (9697)	Capcom continues to strengthen the oversight functions of outside directors to avoid relying on business decisions by the founding family (outside directors account for 5 of the company’s 12 directors).	Japan Airlines (9201)	The company consistently provides updates on capital policy, shareholder returns, and cash allocation. Although dividends were halted during the pandemic, management aims to achieve a dividend payout ratio of at least 35% as soon as possible.	Keisei Electric Railway (9009)	The company’s market cap is lower than the value of its stake in equity-method affiliate Oriental Land (4661, 20% holding). The company stands to benefit should the market come to understand the significance of this holding.								

Appendix: ESG Scores Decomposition - ESG Scores

	Weight		ESG Scores			E		S		G	
	Weight (P)	Weight (B)	Portfolio	Benchmark	Avg (P)	Score	Avg	Score	Avg	Score	Avg
Totals/Averages	100.00%	100.00%	49.31	51.59	22.63	58.59	20.80	47.50	20.07	44.63	25.96
LEG Leisure Equipment & Products and Consumer Electronics	11.00%	4.97%	39.82	37.33	19.00	67.18	20.00	33.27	17.00	22.91	20.00
Sony Group Corporation (TSE:6758)	10.00%	3.28%	41.00	41.00	19.00	70.00	20.00	34.00	17.00	23.00	20.00
Sega Sammy Holdings Inc. (TSE:6460)	1.00%	0.00%	28.00	-	19.00	39.00	20.00	26.00	17.00	22.00	20.00
AUT Automobiles	10.00%	9.05%	45.00	50.04	33.00	52.00	31.00	43.00	32.00	41.00	35.00
Toyota Motor Corporation (TSE:7203)	10.00%	6.02%	45.00	45.00	33.00	52.00	31.00	43.00	32.00	41.00	35.00
TCD Trading Companies & Distributors	8.68%	5.88%	46.23	54.50	19.00	63.81	21.00	49.53	16.00	32.30	21.00
Mitsubishi Corporation (TSE:8058)	7.68%	1.77%	43.00	43.00	19.00	63.00	21.00	47.00	16.00	27.00	21.00
Sojitz Corporation (TSE:2768)	1.00%	0.00%	71.00	-	19.00	70.00	21.00	69.00	16.00	73.00	21.00
MTC Health Care Equipment & Supplies	7.74%	2.96%	37.52	38.30	17.46	47.35	10.94	35.75	11.46	36.91	25.46
HOYA Corporation (TSE:7741)	3.98%	1.20%	27.00	27.00	16.00	34.00	9.00	23.00	10.00	30.00	24.00
Terumo Corporation (TSE:4543)	2.14%	0.60%	31.00	31.00	19.00	52.00	13.00	29.00	13.00	27.00	27.00
Olympus Corporation (TSE:7733)	1.62%	0.52%	72.00	72.00	19.00	74.00	13.00	76.00	13.00	67.00	27.00
DRG Pharmaceuticals	6.89%	6.13%	73.55	69.63	21.00	73.33	17.00	76.88	15.00	69.70	27.00
Takeda Pharmaceutical Company Limited (TSE:4502)	5.22%	1.55%	75.00	75.00	21.00	76.00	17.00	81.00	15.00	68.00	27.00
Eisai Co., Ltd. (TSE:4523)	1.67%	0.46%	69.00	69.00	21.00	65.00	17.00	64.00	15.00	75.00	27.00
IEQ Machinery and Electrical Equipment	6.65%	4.66%	33.35	41.24	19.21	37.97	18.21	30.42	18.21	32.25	21.00
SMC Corporation (TSE:6273)	3.01%	0.81%	15.00	15.00	20.00	17.00	19.00	14.00	19.00	15.00	21.00
Mitsubishi Electric Corporation (TSE:6503)	2.64%	0.00%	40.00	-	18.00	49.00	17.00	33.00	17.00	38.00	21.00
NSK Ltd. (TSE:6471)	1.00%	0.00%	71.00	-	20.00	72.00	19.00	73.00	19.00	69.00	21.00
PRO Professional Services	6.00%	1.75%	56.00	51.80	23.00	79.00	20.00	51.00	20.00	51.00	29.00
Recruit Holdings Co., Ltd. (TSE:6098)	6.00%	1.52%	56.00	56.00	23.00	79.00	20.00	51.00	20.00	51.00	29.00
INS Insurance	5.79%	3.68%	75.36	71.95	31.00	76.77	26.00	75.36	28.00	75.12	36.00
Tokio Marine Holdings, Inc. (TSE:8766)	4.77%	1.28%	78.00	78.00	31.00	78.00	26.00	81.00	28.00	76.00	36.00
T&D Holdings, Inc. (TSE:8795)	1.02%	0.25%	63.00	63.00	31.00	71.00	26.00	49.00	28.00	71.00	36.00
FDR Food & Staples Retailing	3.59%	0.76%	76.00	30.63	21.00	73.00	19.00	75.00	19.00	80.00	26.00
Seven & i Holdings Co., Ltd. (TSE:3382)	3.59%	0.00%	76.00	-	21.00	73.00	19.00	75.00	19.00	80.00	26.00
TSV IT services	3.45%	2.50%	45.35	68.14	23.26	50.81	21.26	44.38	19.97	43.51	26.55
NEC Corporation (TSE:6701)	1.45%	0.42%	81.00	81.00	25.00	94.00	23.00	78.00	22.00	78.00	28.00
GMO internet group, Inc. (TSE:9449)	1.00%	0.00%	21.00	-	19.00	25.00	17.00	21.00	15.00	18.00	23.00
SHIFT Inc. (TSE:3697)	1.00%	0.00%	18.00	-	25.00	14.00	23.00	19.00	22.00	19.00	28.00
STL Steel	3.22%	0.63%	30.63	30.00	20.73	30.22	19.05	32.05	18.42	30.00	23.73
Nippon Steel Corporation (TSE:5401)	2.20%	0.63%	30.00	30.00	22.00	28.00	20.00	33.00	20.00	30.00	25.00
JFE Holdings, Inc. (TSE:5411)	1.02%	0.00%	32.00	-	18.00	35.00	17.00	30.00	15.00	30.00	21.00
FOA Food Products	3.05%	1.30%	55.67	57.26	20.03	55.64	18.70	51.67	18.70	59.03	21.69
Ajinomoto Co., Inc. (TSE:2802)	2.05%	0.55%	76.00	76.00	22.00	74.00	21.00	72.00	21.00	81.00	23.00
Toyo Suisan Kaisha, Ltd. (TSE:2875)	1.00%	0.00%	14.00	-	16.00	18.00	14.00	10.00	14.00	14.00	19.00

Appendix: ESG Scores Decomposition - ESG Scores

	Weight		ESG Scores			E		S		G	
	Weight (P)	Weight (B)	Portfolio	Benchmark	Avg (P)	Score	Avg	Score	Avg	Score	Avg
Totals/Averages	100.00%	100.00%	49.31	51.59	22.63	58.59	20.80	47.50	20.07	44.63	25.96
REA Real Estate	2.95%	2.31%	59.49	52.83	22.00	66.49	21.00	55.41	20.00	56.24	27.00
Mitsubishi Estate Co., Ltd. (TSE:8802)	1.72%	0.47%	72.00	72.00	22.00	79.00	21.00	70.00	20.00	65.00	27.00
Sumitomo Realty & Development Co., Ltd. (TSE:8830)	1.23%	0.23%	42.00	42.00	22.00	49.00	21.00	35.00	20.00	44.00	27.00
ELQ Electrical Components & Equipment	2.83%	0.80%	31.00	37.82	20.00	36.00	19.00	25.00	19.00	32.00	21.00
Nidec Corporation (TSE:6594)	2.83%	0.62%	31.00	31.00	20.00	36.00	19.00	25.00	19.00	32.00	21.00
SEM Semiconductors & Semiconductor Equipment	2.77%	4.53%	55.00	62.93	22.00	68.00	22.00	42.00	22.00	53.00	22.00
Renesas Electronics Corporation (TSE:6723)	2.77%	0.61%	55.00	55.00	22.00	68.00	22.00	42.00	22.00	53.00	22.00
ATX Auto Components	2.74%	1.96%	75.00	56.83	20.00	84.00	19.00	74.00	17.00	67.00	23.00
Bridgestone Corporation (TSE:5108)	2.74%	0.70%	75.00	75.00	20.00	84.00	19.00	74.00	17.00	67.00	23.00
HOU Household Products	2.17%	0.46%	27.00	27.00	35.00	36.00	41.00	28.00	35.00	21.00	32.00
Unicharm Corporation (TSE:8113)	2.17%	0.46%	27.00	27.00	35.00	36.00	41.00	28.00	35.00	21.00	32.00
BNK Banks	2.00%	7.69%	23.50	56.08	22.00	31.50	9.00	22.00	19.00	22.50	29.00
Mebuki Financial Group, Inc. (TSE:7167)	1.00%	0.00%	22.00	-	22.00	26.00	9.00	23.00	19.00	21.00	29.00
The Chiba Bank, Ltd. (TSE:8331)	1.00%	0.12%	25.00	25.00	22.00	37.00	9.00	21.00	19.00	24.00	29.00
RTS Retailing	2.00%	2.23%	46.00	45.42	18.00	46.50	16.00	47.00	15.00	44.50	22.00
Marui Group Co., Ltd. (TSE:8252)	1.00%	0.00%	72.00	-	18.00	72.00	16.00	73.00	15.00	72.00	22.00
Mercari, Inc. (TSE:4385)	1.00%	0.00%	20.00	-	18.00	21.00	16.00	21.00	15.00	17.00	22.00
COS Personal Products	1.47%	1.14%	81.00	69.31	23.00	87.00	24.00	82.00	22.00	77.00	25.00
Shiseido Company, Limited (TSE:4911)	1.47%	0.46%	81.00	81.00	23.00	87.00	24.00	82.00	22.00	77.00	25.00
AIR Airlines	1.01%	0.19%	76.00	76.00	29.00	72.00	24.00	83.00	29.00	72.00	34.00
Japan Airlines Co., Ltd. (TSE:9201)	1.01%	0.09%	76.00	76.00	29.00	72.00	24.00	83.00	29.00	72.00	34.00
IMS Interactive Media, Services & Home											
Entertainment	1.01%	2.27%	12.00	26.37	16.00	13.00	11.00	10.00	14.00	14.00	21.00
Capcom Co., Ltd. (TSE:9697)	1.01%	0.20%	12.00	12.00	16.00	13.00	11.00	10.00	14.00	14.00	21.00
TRA Transportation and Transportation Infrastructure	1.01%	3.82%	13.00	32.25	22.00	12.00	21.00	11.00	19.00	15.00	26.00
Keisei Electric Railway Co., Ltd. (TSE:9009)	1.01%	0.15%	13.00	13.00	22.00	12.00	21.00	11.00	19.00	15.00	26.00
COM Construction Materials	1.00%	0.00%	28.00	-	27.00	34.00	24.00	25.00	27.00	24.00	29.00
Sumitomo Osaka Cement Co., Ltd. (TSE:5232)	1.00%	0.00%	28.00	-	27.00	34.00	24.00	25.00	27.00	24.00	29.00
THQ Computers & Peripherals and Office Electronics	1.00%	1.82%	86.00	63.15	29.00	90.00	31.00	88.00	27.00	81.00	30.00
Ricoh Company, Ltd. (TSE:7752)	1.00%	0.15%	86.00	86.00	29.00	90.00	31.00	88.00	27.00	81.00	30.00

Appendix: Exclusion Criteria of Sustainalytics

- Adult Entertainment Production
- Adult Entertainment Distribution
- Alcoholic Beverages Production
- Alcoholic Beverages Related Products/Services
- Alcoholic Beverages Retail
- Cannabis (Medical) Production
- Cannabis (Medical) Retail
- Cannabis (Recreational) Production
- Cannabis (Recreational) Retail
- Fur and Specialty Leather Production
- Fur and Specialty Leather Retail
- Gambling Operations
- Gambling Specialized Equipment
- Gambling Supporting Products/Services
- Genetically Modified Plants and Seeds Development
- Genetically Modified Plants and Seeds Growth
- Military Contracting Weapons
- Military Contracting Non-Weapon-Related Products and/or Services
- Military Contracting Weapons-Related Products and/or Services
- Nuclear Distribution
- Nuclear Production
- Nuclear Supporting Products/Services
- Palm Oil Production
- Pesticides Production
- Pesticides Retail
- Pork Products Production
- Pork Products Related Products/Services
- Pork Products Retail
- Predatory Lending Operations
- Shale Energy Extraction
- Small Arms Civilian Customers (Assault Weapons)
- Small Arms Civilian Customers (Non-Assault Weapons)
- Small Arms Key Components
- Small Arms Military/Law Enforcement Customers
- Small Arms Retail/Distribution (Assault Weapons)
- Small Arms Retail/Distribution (Non-Assault Weapons)
- Thermal Coal Power Generation
- Thermal Coal Extraction
- Tobacco Products Production
- Tobacco Products Related Products/Services
- Tobacco Products Retail
- Whale Meat Processing

Appendix: ESG Metrics of In-house Scoring

Category	Sub-category	Metric	Weighting	Measured By
Social	Community & Ethics	Localization of manufacturing	7	(Weighting/Industry highest)*% of local factories
Social	Customer	Investment and innovation	6	(Weighting/Industry highest)*R&D cost/Revenue
Social	Customer	Affordability and access	5.5	(Weighting/Industry average)*Gross margin
Social	Responsible Sourcing	Materials sourcing	2	(Weighting/Industry average)*% of supplies from local suppliers
Social	Responsible Sourcing	Responsible sourcing overall	2	(Weighting/Industry average)*% of supplies from qualified suppliers
Governance	Corporate Governance	Board composition, executive compensation, and shareholder rights	5	Presence of Employee CSR Training, Health and Safety Policy, Business Ethics Policy, Anti-Bribery Ethics Policy, Equal Opportunity Policy, Gender Pay Gap Breakout, Human Rights Policy, Policy Against Child Labor, Quality Assurance and Recall Policy, Consumer Data Protection Policy, Community Spending
Governance	Employee Health and Safety	Workplace conditions, accident rates, and safety training programs	5	Weighting - (Weighting/Industry average)*Material accident number
Governance	Diversity and Inclusion	Representation of women and minorities and overall workforce demographics	5	(Weighting/Industry average)*(% of women in the Board/key management + Labor rights condition)
Environmental	Climate change	Increase in power/energy efficiency	6	(Weighting/Industry highest)*Output unit
Environmental	Natural Resources & Pollution	Water use	3.5	(Weighting/Industry average)*Water usage per unit of production value
Environmental	Climate change	Climate mitigation - own operations	2.5	(Weighting/Industry average)*Years needed to reach net zero target

Comparison of Scoring Methods

ESG Rating Provider	Methodology	Pros	Cons
ISS ESG	<ul style="list-style-type: none"> Uses a combination of quantitative and qualitative data, including publicly available information, company self-assessments, and third-party research 	<ul style="list-style-type: none"> Considered to be one of the most comprehensive ESG rating providers Provides detailed feedback to companies on their ESG performance 	<ul style="list-style-type: none"> Can be expensive for smaller companies Some investors have criticized ISS ESG for being too lenient on certain ESG issues
MSCI ESG	<ul style="list-style-type: none"> Uses a quantitative methodology to assess companies' ESG performance, based on publicly available data 	<ul style="list-style-type: none"> Transparent and objective methodology Covers a wide range of ESG factors 	<ul style="list-style-type: none"> Less emphasis on qualitative factors Some investors have criticized MSCI ESG for being too focused on quantitative metrics
S&P Global ESG	<ul style="list-style-type: none"> Uses a combination of quantitative and qualitative data, including publicly available information, company self-assessments, and third-party research. 	<ul style="list-style-type: none"> Considered to be a leader in ESG research and analysis Provides detailed insights into companies' ESG performance. 	<ul style="list-style-type: none"> Can be expensive for smaller companies Some investors have criticized S&P Global ESG for being too focused on financial risks
Sustainalytics	<ul style="list-style-type: none"> Uses a combination of quantitative and qualitative data, including publicly available information, company self-assessments, and third-party research 	<ul style="list-style-type: none"> Considered to be a pioneer in ESG research and analysis. - Provides detailed insights into companies' ESG performance 	<ul style="list-style-type: none"> Can be expensive for smaller companies Some investors have criticized Sustainalytics for being too focused on social issues

Appendix: Annual Stewardship Report



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