

Japan Science and Technology Agency
Stewardship Activity Report for FY2023

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*Japanese Code = Japan's Stewardship Code

I. Initiatives by JST

1. Stewardship activities by JST

- Japan's Stewardship Code (hereinafter referred to as the "Japanese Code") defines "stewardship responsibilities" as "the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies".
- In addition, in the "Basic Guidelines for Grant Fund Management" informed by the Minister of MEXT pursuant to the provisions of Article 28, paragraph (1) of the Act on Japan Science and Technology Agency, National Research and Development Agency, one of the basic items that the Japan Science and Technology Agency (hereinafter referred to as "JST") must comply with regarding the grant fund management is "activities to fulfill stewardship responsibilities and initiatives that take the environment, society, and corporate governance (ESG) into account"*.
- Based on the above, in March 2022, JST established the following three policies, etc., and announced its acceptance of the Japanese Code.
 - Policies for fulfilling stewardship responsibilities
 - Principles for stewardship activities
 - Principles for exercising voting rights

- JST signed the Principles for Responsible Investment (PRI) in August 2023.
- In September 2024, JST also published our "Policy on Initiatives Concerning Asset Owner Principles". This policy also clearly states our commitment to stewardship activities.
- JST's investment objective is to secure financial resources to provide support for establishing a research infrastructure necessary for building World-Class Research Universities stably over a long period. Under this objective, JST will actively engage in stewardship activities to increase long-term investment returns and help investee companies and the market as a whole grow sustainably.

*With regard to JST's stewardship initiatives, it is clearly stated that "JST shall in principle hire external investment managers. In evaluating the investment managers, JST shall ensure that they carry out stewardship activities and ESG-based initiatives in an appropriate manner."

I. Initiatives by JST

■ Below are the "Policies, etc. established and published in conjunction with the announcement of acceptance of the Japanese Code" and the "Overview of stewardship activities".

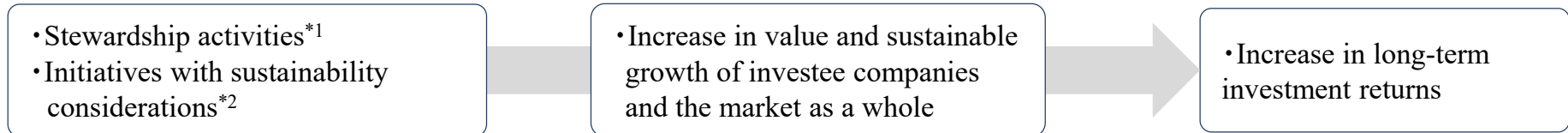
Policies, etc. established and published in conjunction with the announcement of acceptance of the Japanese Code

- | | |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| ① Policies for fulfilling stewardship responsibilities | : Policies outlining the concept of stewardship responsibilities and the roles and responses to those responsibilities |
| ② Principles for stewardship activities | : Policies for the investment manager regarding the requirements and principles of stewardship activities |
| ③ Principles for exercising voting rights | : Policies for the investment manager regarding the exercise of voting rights and the publication of the results of their exercise |

Overview of stewardship activities

① Policies for fulfilling stewardship responsibilities

(Basic approach)



JST invests in equities of individual companies through the investment managers

(JST initiatives policies)

- Promotion of stewardship activities, etc. by the investment managers
- Monitoring of stewardship activities by the investment managers, etc., and implementation of dialogue (engagement)
- Publication of summary of stewardship activities

(To the investment managers)

- ② Principles for stewardship activities
Compliance with corporate governance structure, management of conflicts of interest, stewardship activities policies including engagement, sustainability considerations, and exercise of voting rights
- ③ Principles for exercising voting rights
Publication of policies for exercising voting rights, emphasis on communication with investees, sustainability considerations, and publication of exercise results and reasons for decisions, etc.

*1 In addition to a deep understanding of investee companies and their business environment, management of conflicts of interest, constructive engagement with investee companies, appropriate exercise of voting rights, etc.

*2 Medium- to long-term sustainability, including ESG factors

I. Initiatives by JST

(Reference) The Japanese Code consists of the following 8 principles, of which JST addresses Principles 1 through 7, which are required of institutional investors.

Principles for institutional investors

- Principle 1: Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
- Principle 2: Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
- Principle 3: Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
- Principle 4: Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.
- Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.
- Principle 6: Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.
- Principle 7: To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Principles for service providers to institutional investors

- Principle 8: Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

I. Initiatives by JST

2. Engagement with investment managers

- Based on the "Policies for fulfilling stewardship responsibilities," JST requires the investment managers to comply with the "Principles for stewardship activities" and the "Principles for exercising voting rights," which set forth specific initiatives and expectations in stewardship activities.

<Specific initiatives and expectations in stewardship activities>

- ① Development of a corporate governance system, and establishment of an organizational structure to effectively fulfill stewardship responsibilities, etc.
- ② Appropriate management of conflicts of interest
- ③ Stewardship activities, including engagement with investee companies
- ④ Sustainability considerations in investments and engagements
- ⑤ Appropriate exercise of voting rights

- Based on the above, the individual investment guidelines require investment managers to submit a policy on stewardship responsibilities and an annual report on stewardship activities.
- The status of stewardship activities of investment managers is evaluated based on the responses to questionnaires from JST, as well as interactive communication such as Q&A sessions at meetings with each investment manager, thereby confirming both quantitative and qualitative aspects of the activities.
- JST began investment in March 2022, and there are four investment managers that are the subject of this activity report. The specific initiatives of the investment managers in FY2023 are described in "II. Initiatives by investment managers", and as a whole, we evaluate that appropriate initiatives are being taken.

II. Initiatives by investment managers

1. Japanese Code, Principle 1: Establishment and publication of policies

- We confirmed that all investment managers have established and published basic policies etc. to fulfill their stewardship responsibilities.

2. Japanese Code, Principle 2: Management of conflicts of interest

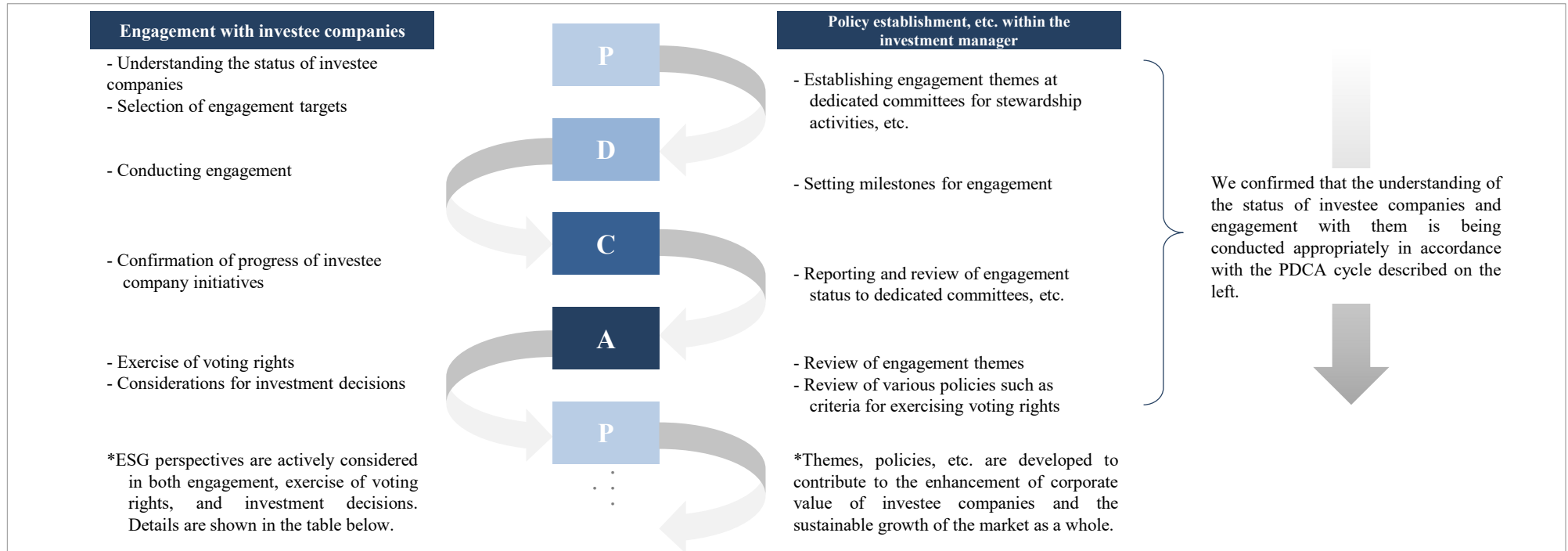
- We confirmed that all investment managers have established and published clear policies regarding conflicts of interest to be managed in fulfilling their stewardship responsibilities, and that they have established a system to prevent the harmful effects of conflicts of interest.
- Specifically, we confirmed that a system for the benefit of beneficiaries has been established, including the establishment of a department dedicated to conflicts of interest management that is separated and independent from sales responsibilities, and the establishment of committees, etc., whose members include external third parties, for the purpose of supervising and verifying overall stewardship activities.

3. Japanese Code, Principle 3: Monitoring of investee companies

4. Japanese Code, Principle 4: Engagement with investee companies

- We confirmed that all investment managers are taking initiatives to understand the actual conditions and issues of investee companies through both financial and non-financial approaches, and that they are engaged in dialogue with investee companies based on the actual conditions and issues they have identified. (see next page and beyond).

The concept of "understanding the status of investee companies" and "engagement with investee companies"

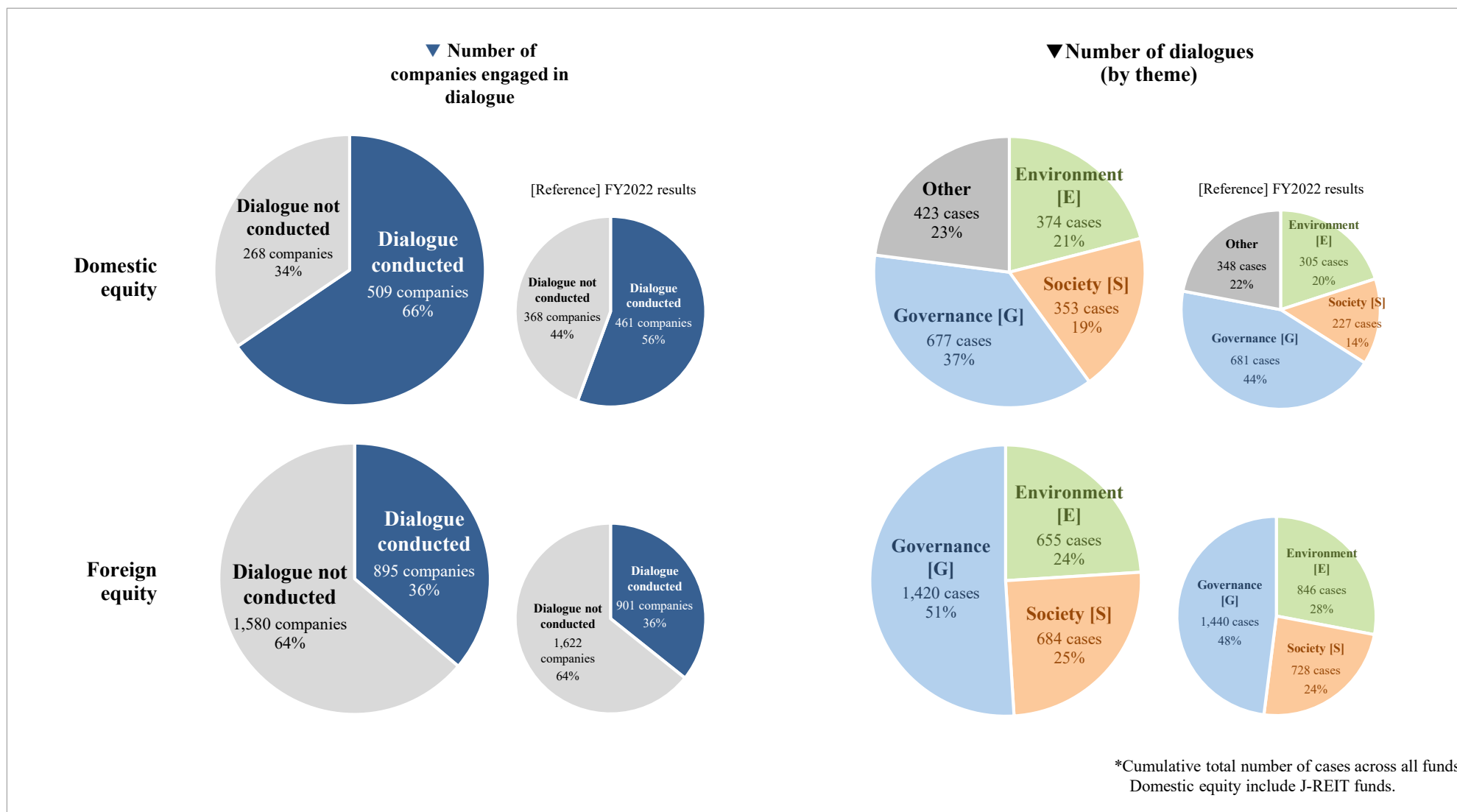


■ We confirmed the following examples of engagement activities by investment managers that take ESG perspectives into account.

Topic	Dialogue overview	Results etc.
Environment [E] Climate change response	Conducted dialogue to improve the situation, as information was not disclosed in line with the TCFD framework and explanations of plans for transitioning to a low-carbon economy were insufficient compared to other companies in the same industry.	Information disclosure in line with the TCFD framework was achieved in the most recently published Sustainability Report. Future initiatives will be followed up to ensure the continuation and progress of disclosure of information useful to investors.
Society [S] Human capital management	Conducted a dialogue on the concept and initiatives regarding human capital management with the aim of co-creating value with investors, in light of the problem of superficiality of disclosure content regarding human capital management initiatives and recognition of issues.	The ESG briefing session included the results of employee engagement, identification of problem areas, and disclosure of measures taken to address these issues, thereby realizing initiatives to deepen investors' understanding of human resource strategies. Provided support will be continued to enhance corporate value.
Governance [G] Effectiveness of the board of directors	Conducted a dialogue with the chair of the nominating committee based on the recognition of the issue that the newly appointed outside director concurrently serve on the boards of several listed companies and may not have sufficient time to fulfill responsibilities as director.	It was confirmed that the director have recently resigned from some of concurrent positions, that the director have not been unable to take time to fulfill responsibilities, and that the knowledge, etc. possessed by the director is beneficial and indispensable for the management of the company. Evaluation will be continued the effectiveness of the board of directors.

II. Initiatives by investment managers

■ The results of engagement activities by the investment managers were as follows



II. Initiatives by investment managers

5. Japanese Code, Principle 5: Exercise of voting rights

- We confirmed that the investment managers exercise their voting rights in consideration of conflicts of interest, corporate value enhancement, and ESG perspectives in accordance with the voting guidelines established by the investment managers, while taking into account the voting principles set forth by JST.

<Domestic equity>

Number of proposals		Company proposals					Shareholder proposals					Total number exercised
		Agree	Disagree	Abstain	Carte blanche	Total	Agree	Disagree	Abstain	Carte blanche	Total	
Proposals on corporate organization	Election and dismissal of directors	6,681	415	0	0	7,096	5	18	0	0	23	7,119
	Election and dismissal of auditors	804	38	0	0	842	1	1	0	0	2	844
	Election and dismissal of accounting auditors	4	0	0	0	4	0	0	0	0	0	4
Proposals on officers' compensation	Officer's compensation	265	2	0	0	267	0	3	0	0	3	270
	Payment of retirement benefits to retiring officers	4	2	0	0	6	0	0	0	0	0	6
Proposals on capital policy (excluding proposals related to the Articles of Incorporation)	Appropriation of surplus	444	0	0	0	444	0	9	0	0	9	453
	Reorganization-related	17	0	0	0	17	0	0	0	0	0	17
	Introduction, renewal and abolition of anti-takeover measures	0	0	0	0	0	0	0	0	0	0	0
	Other capital policy proposals	3	0	0	0	3	0	3	0	0	3	6
Proposals on Articles of Incorporation		200	10	0	0	210	0	157	0	0	157	367
Other proposals		20	0	0	0	20	0	0	0	0	0	20
Total		8,442	467	0	0	8,909	6	191	0	0	197	9,106

<Foreign equity>

Number of proposals		Company proposals					Shareholder proposals					Total number exercised
		Agree	Disagree	Abstain	Carte blanche	Total	Agree	Disagree	Abstain	Carte blanche	Total	
Proposals on corporate organization	Election and dismissal of directors	17,362	750	78	0	18,190	15	18	4	0	37	18,227
	Election and dismissal of auditors	145	33	0	0	178	10	6	0	0	16	194
	Election and dismissal of accounting auditors	2,010	0	1	0	2,011	0	2	0	0	2	2,013
Proposals on officers' compensation	Officer's compensation	4,104	486	11	0	4,601	5	24	0	0	29	4,630
	Payment of retirement benefits to retiring officers	17	3	0	0	20	11	22	0	0	33	53
Proposals on capital policy (excluding proposals related to the Articles of Incorporation)	Appropriation of surplus	683	0	0	0	683	0	0	0	0	0	683
	Reorganization-related	44	4	0	0	48	0	0	0	0	0	48
	Introduction, renewal and abolition of anti-takeover measures	23	8	0	0	31	4	35	0	0	39	70
	Other capital policy proposals	2,100	148	0	0	2,248	0	1	0	0	1	2,249
Proposals on Articles of Incorporation		558	5	0	0	563	41	87	0	0	128	691
Other proposals		3,269	161	49	0	3,479	239	837	0	0	1,076	4,555
Total		30,315	1,598	139	0	32,052	325	1,032	4	0	1,361	33,413

*Cumulative total number of cases across all funds.
Domestic equity include J-REIT funds.

II. Initiatives by investment managers

6. Japanese Code, Principle 6: Periodic report on stewardship activities

- All investment managers report regularly to JST on their stewardship activities.
- We also confirmed that the investment managers regularly publish reports on their stewardship activities on their websites.

7. Japanese Code, Principle 7: Competence to properly perform stewardship activities

- We confirmed that all investment managers have developed and enhanced their systems for promoting stewardship activities.
- Specifically, we confirmed that, for each of the activities of engagement with investee companies and exercise of voting rights, they have established organizational structures and dedicated departments to ensure mutual coordination while taking ESG perspectives into account, and have established and operated independent committees, etc. to deliberate on and supervise these activities, etc.

II. Initiatives by investment managers

8. Recognition of issues at investment managers

- We confirmed that the following are the main issues that the investment managers identified as priority issues for the future. JST will monitor the activities of the investment managers and encourage them to promote initiatives to address priority issues, etc.

Recognition of issues for investee companies

Environment

- Enhancement of response to climate change and natural capital
- Enhancement of disclosure information on TCFD, etc.

Social

- Strengthen human capital management initiatives
- Promote wellbeing initiatives
- Implement human rights due diligence

Governance

- Sustainable improvement of corporate value, taking into account the capital cost
- Improvement of the effectiveness of the Board of Directors

Recognition of issues for own initiatives

Enhance stewardship system (e.g., by assigning specialized personnel)

Enhance engagement by deepening understanding of ESG issues, etc.

Constant revision of the criteria for exercising voting rights to reflect changes in the external environment, etc.

Stable operation of a framework for ESG considerations in investment decisions

Actively participate in collaborative engagement initiatives

III. Reference material

(1) Policies, etc. regarding JST's stewardship activities

■ The policies and other information on stewardship activities at JST are published on the JST website, etc. For details, please refer to the URLs below.

- ▶ **Basic Guidelines for Grant Fund Management**
https://www.mext.go.jp/content/230315-mxt_gakkikan_000017961-1.pdf
- ▶ **Basic Policy for Grant Fund Management**
https://www.jst.go.jp/fund/dl/kihon_houshin20240822.pdf
- ▶ **Policies for fulfilling stewardship responsibilities**
https://www.jst.go.jp/fund/dl/stewardship_houshin.pdf
- ▶ **Principles for stewardship activities**
https://www.jst.go.jp/fund/dl/stewardship_katsudougensoku.pdf
- ▶ **Principles for exercising voting rights**
https://www.jst.go.jp/fund/dl/stewardship_giketsukenkoushigensoku.pdf

(2) Publication of results of exercise of voting rights by investment managers

■ URLs where the results of exercise of voting rights by investment managers are published are as follows.

Investment managers	URLs for publication of results of voting rights exercise
Nomura Asset Management	https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html
BlackRock Japan	https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting
Sumitomo Mitsui Trust Bank (Sumitomo Mitsui Trust Asset Management)	https://www.smtam.jp/company/policy/voting/result/
Mitsubishi UFJ Trust and Banking	https://www.tr.mufg.jp/houjin/jutaku/about_stewardship.html

*In parentheses is the recommissioning company as of November 19, 2024.