TCFD Report 2023

Daiwa JPI Alternative Investments Limited

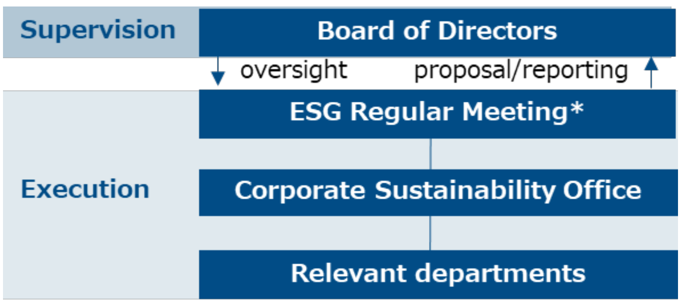
Daiwa JPI Alternative Investments Limited (“we” or “the Company”) is actively promoting initiatives related to ESG/SDGs, with "realizing a sustainable and prosperous society through alternative investments" as one of our corporate missions. We have been offering investment opportunities related to renewable energy investment, infrastructure investment, and insurance-related products and recently enhancing our efforts for ESG/SDG initiatives. We identified our corporate materiality (the key issues that we must focus on) including “environment-friendly business operations”, recognizing that climate change is a global priority that we should combat as one of our social missions. Also, our management team recognize that integrating climate change risks and opportunities into our corporate strategy is essential for the sustainable growth of our company.

We expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in September 2023. In accordance with the TCFD recommendations, we base our approaches and policies to address environmental and social issues including climate change on the four pillars listed in the recommendations: Governance, Strategy, Risk Management, and Metrics and targets.

Governance

Our governance framework for sustainability is designed to place the Board of Directors as the highest governance body that supervises initiatives carried out by the regular ESG meetings and the Corporate Sustainability Office. The Corporate Sustainability Office is responsible for coordinating various internal activities and making proposals to promote company-wide sustainability initiatives.

Governance Framework of Sustainability Issues



*ESG regular meeting members: CEO, full-time directors, Head of Legal & Compliance Dept. and Corporate Sustainability Office

Board of Directors

As the highest governance body, the board of directors mainly deliberates on the following matters.

(Examples of Resolutions)

- Establishment of policies and setting of targets for climate change countermeasures
- Review of corporate strategies including medium-term business plan, annual budgets and materiality from the viewpoint of climate change countermeasures
- Participation in sustainability-related initiatives
- Establishment and revision of ESG Investment Policy

(Examples of Reporting Matters for Supervision)

- Progress toward sustainability-related goals
- Assessment results of identified climate-related risks and opportunities, as well as the management status of business risks including climate change risks

Regular ESG Meetings

At regular ESG meetings held every other week, a wide range of topics related to sustainability, including the following matters, are discussed mainly by the management team. In addition, the management team monitors various internal activities and progress toward any targets through this meeting.

- Details of ESG Investment Policy
- Methods of ESG due diligence of investees, including those related to climate change
- Activity status of the industry-wide initiatives in which MAI is participating
- Materiality and climate change targets and progress
- Trends in the financial industry regarding environmental and social issues
- Measures to raise employee awareness of environmental and social issues

Corporate Sustainability Office

The Corporate Sustainability Office plays the following roles in sustainability initiatives, including addressing climate-change-related issues, by leading the development of a framework for company-wide initiatives consistent with our materiality.

- Coordinating with relevant departments regarding the establishment and revision of sustainability-related policies, such as ESG Investment Policy, and submitting proposals to the Board of Directors

- Attending the Investment Committee in which important matters such as the selection of investment products in the Investment Management Business are resolved and the Product Strategic Committee in which important matters such as the marketing of a new product in the Securities Business are decided. A veto may be exercised if there is a concern from the viewpoint of ESG as a committee member.
- Identifying and assessing risks and opportunities related to climate change and reporting to the Risk Management Committee
- Regularly reporting the monitoring results of the status of company-wide management of climate change risks to the Risk Management Committee
- Reporting and proposing policies and the status of various sustainability-related initiatives to management at ESG regular meetings
- Disclosing information related to sustainability, including TCFD requirements, to employees and the public

Strategy

We first identified the climate change risks and opportunities which may potentially impact on our business and then assessed the implications on our financials.

Major Climate Change Risks and Opportunities

The key climate-related risks and opportunities we identified are as follows:

[Risks and Opportunities Identified Across Our Business Operations]

Risks and Opportunities		Significance	Implication on our corporate earnings	Time horizon
Type	**Description**			
Transition Risks	Regulators may impose stricter rules related to ESG investment that work against investment funds.	Moderate	Decrease in operational revenue due to lower profitability at the fund level	Medium to Long
	Shift of investor needs and investment regulations may render the current product lineup outdated or commoditized.	Low	Decrease in operational revenue through more outflow of fund AUM	Medium to Long
	Additional costs, such as office renovation cost, may be required in response to GHG emission restrictions along with change in carbon pricing laws and regulations.	Low	Increase in costs to address the regulations	Short to Long
	New participants with more eco-friendly business models may make the market more competitive.	Low	Decrease in operational revenue through more outflow of fund AUM	Medium to Long
	The reputation and brand image of our business may be degraded by investing in less eco-friendly sectors.	Low	Decrease in operational revenue through more outflow of fund AUM	Medium to Long
	Our investments/investment fund lineup may be considered as greenwashing cases, harming the reputation and brand image of our business.	Low	Decrease in operational revenue through more outflow of fund AUM	Medium to Long
Physical Risks	Our business may be interrupted by typhoons, tsunamis and floods, and additional costs may be incurred to restart operation and recover the losses after disasters.	Low	Increase in extraordinary losses due to one-off expenses	Medium to Long
	The cost of managing the working environment may increase as the temperature rises.	Low	Increase in costs related to office air conditioning in accordance with rising energy prices	Medium to Long
Opportunities	New business opportunities may be available by focusing on areas such as green finance, transition finance and solution business.	High	Increase in operational revenue through more inflow of fund AUM	Short to Long
	The market may expand as confidence in ESG-related products strengthens and investors become more conscious of ESG issues.	Moderate	Increase in operational revenue through more inflow of fund AUM	Medium to Long
	Investors may be provided more opportunities to invest in companies promoting transition to the low-carbon society.	Moderate	Increase in operational revenue through more inflow of fund AUM	Short to Long
	Corporate initiatives to tackle climate change issues may enhance our brand reputation.	Moderate	Increase in operational revenue through more inflow of fund AUM	Medium to Long

In addition, for fiscal year 2022, we conducted a more detailed analysis of the risks and opportunities in funds targeting solar and wind power investments, taking into account the proportion and impact of climate change by sector in the business portfolios of both the Investment Management Business and Securities Business.

[Risks and Opportunities in Business Related to Funds Investing in Solar and Wind Power]

Risks and Opportunities		Significance	Implication on our corporate earnings	Time horizon
Type	Description			
Transition Risk	Changes in laws and regulations may increase solar energy curtailment or the cost burden associated with carbon pricing, diminishing returns generated by investment funds.	Moderate	Decrease in operational revenue due to lower profitability at the fund level	Short to Long
	The FIT scheme may be abolished, scaled down or changed to cut the purchase price, damaging the electricity sales revenue and ultimately the return of the investment funds.	Moderate	Decrease in operational revenue due to lower profitability at the fund level	Medium to Long
Physical Risk	Natural disasters may damage invested physical assets (such as solar or wind power infrastructures) or suspend their operation, deteriorating the value and the investment return of clients' portfolios.	Moderate	Decrease in operational revenue due to lower profitability at the fund level	Medium to Long
Opportunity	Growing demand for renewable energy such as solar or wind power may lead to more opportunities to structure new funds or expand other business.	High	Increase in operational revenue because of expansion of our intermediary business.	Short to Long

The time horizon is defined as follows:

Short-term: up to 3 years, Medium-term: up to 10 years, Long-term: up to 30 years

Scenario Analysis

We conducted scenario analysis of the impact of risks and opportunities based on multiple scientific scenarios for climate change in order to understand the impact of global warming on our business. For fiscal year 2022, we utilized 2 scenarios to prepare for a wider range of outcomes; the 1.5°C scenario and the 4°C scenario. Below is the set of assumptions in each scenario.

- 1.5°C scenario: The entire society accelerates its pace toward decarbonization. One of the significant risks of note is the transition risk arising from market shifts and stricter regulations.
- 4℃ scenario: The global temperature continues to rise and the negative effects expand as economic growth is prioritized. One of the significant risks of note is the physical risk originating from natural disasters such as floods.

Our scenario analysis refers to the climate scenarios and other related reports published by the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS).

With regard to the transition risks, we assessed the impact of changes in customer needs caused by the transition to a carbon-free society and the tightening of regulations such as carbon taxes on revenues and costs in our securities and investment management businesses.

With regard to the physical risks, we assessed the possibility that the physical assets of the investee will indirectly affect our earnings due to flooding or other damage caused by extreme weather conditions.

The results of the analysis for both 1.5°C and 4°C scenarios show that, although a decline in revenues is most likely if we can’t respond well to climate change risks and opportunities, we may be able to grow revenues if we can take an appropriate approach by taking advantage of more business opportunities related to decarbonization and sustainability.

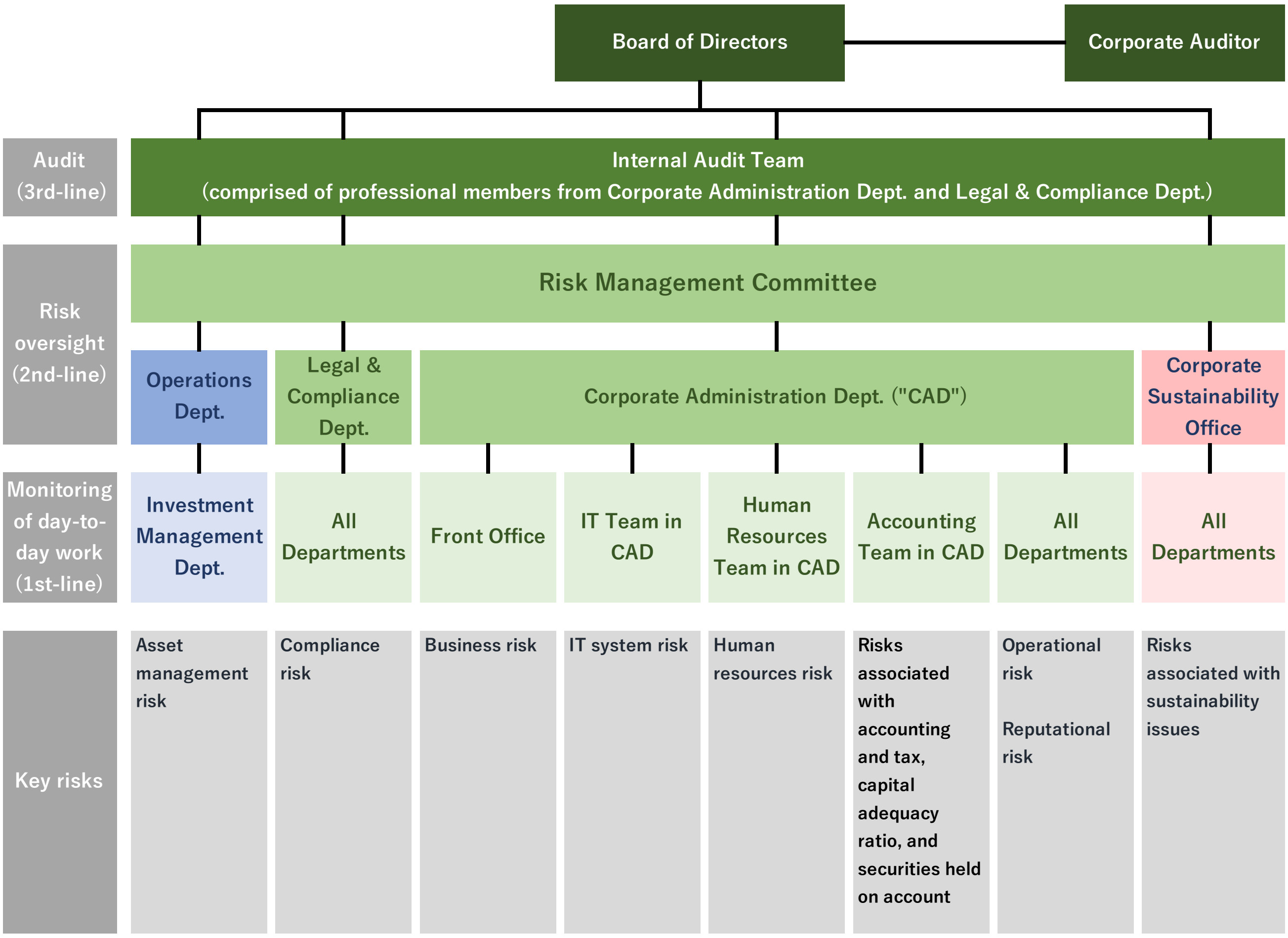
We report the results of our scenario analysis to the management team to have a discussion with them on risks and opportunities as well as their impact on our strategy. In addition, climate change risks are considered when making investment decisions and monitored on an ongoing basis, in line with the established ESG Investment Policy.

Risk Management

The Risk Management Committee was newly established on July 1, 2023, to assume the role of managing the climate change risks as part of the company-wide risk management framework.

The Risk Management Committee identifies various risks, including those related to sustainability, and assesses their significance, monitors the risk management status of each department for each type of the specific risk, provides advice, and reports the status of risk management to the Board of Directors at least once a year.

Risk Management Structure (as of October 1, 2023)



As of October 2023, we are working to establish a robust monitoring framework for sustainability-related risks, including climate change risks, and to effectively integrate them into a company-wide risk management system in consideration of the relationship with other risks.

Engagement in Fund Investment

Our Investment Management Department enters into discretionary investment contracts with investors who are asset owners, and invests in funds managed by domestic and overseas external investment managers. As a result, although we cannot engage directly with the ultimate portfolio company, we believe it is vital to ensure that the managers of the underlying funds are capable enough of assessing and managing ESG risks, including climate-change risks, and to engage in dialogue with such managers to reduce risks.

As a part of the pre-investment due diligence, the Investment Management Department will evaluate each manager and fund qualitatively in terms of ESG integration experience, organizational structure, internal policies, human resources, and ESG reporting, using our own ESG scores based on the ESG Investment Policy established in August 2021. The results of this ESG score and qualitative assessment are considered in making the final investment decision at the Investment Committee that is responsible for the selection of the managers. Scoring criteria are shared across all asset classes and strategies, but the ESG risks such as climate change risks give different degrees of impact to each asset class and strategy. Therefore, we make investment decisions based on a comprehensive assessment which includes both ESG considerations and other factors.

After starting the investment, we regularly receive performance reports from the managers and monitor their investment as long as we hold the position. For examples, if any negative news is reported on the manager, we will require them to report to us. We will also review the ESG scores of existing managers at least annually.

Going forward, we will continue to refine the assessment items in our ESG scoring so that we can evaluate portfolio funds/managers in line with our materiality and the TCFD recommendations.

Metrics and Targets

CO2 Emissions from Our Business Activities

Most of our CO2 emissions come from the use of electricity (Scope 2) in our office and from employee commuting and business trips (Scope 3 Categories 6 and 7). The annual carbon footprints of our electricity use are shown in the table below. In addition to ongoing energy-saving measures, we will consider additional initiatives for decarbonization, such as changing the electricity plan for the office building (leased office). In addition, we will work on measuring emissions associated with employee commuting and business travel.

CO2 emissions (kg-CO2)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Scope 1	0	0	0	0	0
Scope 2	79,827	77,291	66,950	73,051	80,829
Scopes 1+2	79,827	77,291	66,950	73,051	80,829

Calculation period: April 1 to March 31 of each fiscal year

CO2 Emissions of Portfolios We Manage on Behalf of Clients

Because we invest in investment funds managed by external managers under discretionary investment contracts with our clients, it is difficult to trace CO2 emissions of portfolios in the management of client assets.

Meanwhile, there is a growing trend among the underlying managers to disclose information related to climate change, and we look to keep track of and disclose actual CO2 emissions as much as possible.

Business Opportunities That Leverage Climate Change Opportunities

We consider investments that contribute to the transition to a low-carbon society as business opportunities and are actively working to provide investors with access to such investments.

Specifically, in the Investment Management Business, we offer investment and gatekeeping services with a fine selection of funds such as domestic funds that invest in solar power generation projects, overseas infrastructure funds that invest in the renewable energy sector, and funds that invest in insurance-linked securities related to natural disaster risks.

Also in the Securities Business, we are continuing our efforts to identify and provide investment opportunities that contribute to the transition to renewable energy. For example, our extensive experience in the structuring and placement of solar power funds enabled us to invest in the general partner of a solar power fund in the fiscal year 2022.

Metrics	AUM (since inception) of the funds that contribute to resolving climate change issues* (Securities Business)
Results	JPY164.3 billion (as of March 2023)

*Funds that contribute to resolving climate change issues include funds investing over the half of their assets in the sectors (renewable energy power generation and non-life insurance) that contribute to climate change solutions.