TCFD Report 2024

Daiwa JPI Alternative Investments Limited

Daiwa JPI Alternative Investments Limited ("we" or "the Company") recognizes the risks and opportunities of climate change as an important factor to consider in corporate business strategy. 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, namely, Governance, Strategy, Risk Management, and Metrics and targets.

2024 Highlight

Update on integration of climate change risks into the company-wide risk management framework

Sustainability risks, including climate change risks, are risks that should be managed comprehensively in the same framework as other critical risks that may impact company management. Therefore, we have added them as one of the key risks in the company-wide Risk Control Matrix (RCM) so that they can be reflected in the course of our daily operation flow.

More details in P7

Revision of the ESG Investment Policy

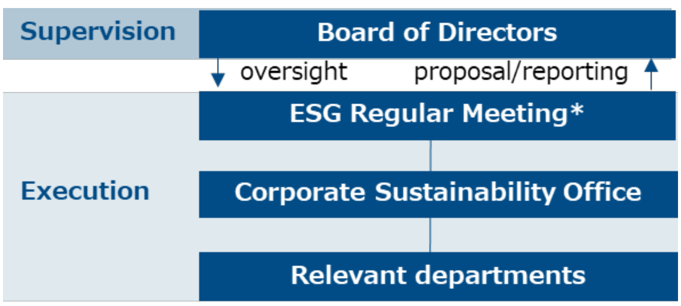
In July 2024, the ESG Investment Policy was revised and renamed as the Sustainable Investment Policy. The revised policy includes the stewardship policy we newly established.

More details in P8

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 regular ESG meetings and the Corporate

Governance Framework of Sustainability Issues



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

Sustainability Office. The Corporate Sustainability Office is responsible for developing an appropriate framework and organizing events to promote company-wide sustainability initiatives, and disclosing sustainability information.

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

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 made toward any targets through this meeting.

- Details of the Sustainable Investment Policy
- Methods of investee ESG due diligence, 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 on the establishment and revision of sustainability-related policies, such as the Sustainable 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 new products in the Securities Business are decided. A veto may be exercised if there are concerns 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 that may potentially impact our business and then assessed the implications on our financials.

Key Climate Change Risks and Opportunities

The key climate-related risks and opportunities we identified are as follows. We have identified them from the perspective of not only our overall business but also the operation of funds targeting solar and wind power investments. Specific attention is paid to the solar and wind power sectors because they account for much of the business portfolio of both the Investment Management Business and Securities Business and are relatively susceptible to climate change.

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
	Our climate-related initiatives are insufficient or our climate-related disclosures may be considered as greenwashing, harming the reputation and brand image of our business.	Low	Decrease in operational revenue through more outflow of fund AUM	short 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	There may be more opportunities to provide funds or solutions that contribute to accelerating conversion to renewable energy and decarbonization.	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

Risks and Opportunities 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 infrastructure) or suspend their operation, leading to increased operation and restoration cost, higher insurance premiums, or increased capital investment for strengthening resilience, consequently deteriorating the value and 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 FY 2023, as in the previous year, we utilized two 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 for each scenario.

- 1.5°C scenario: All of 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 the tightening of regulations for decarbonization 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.

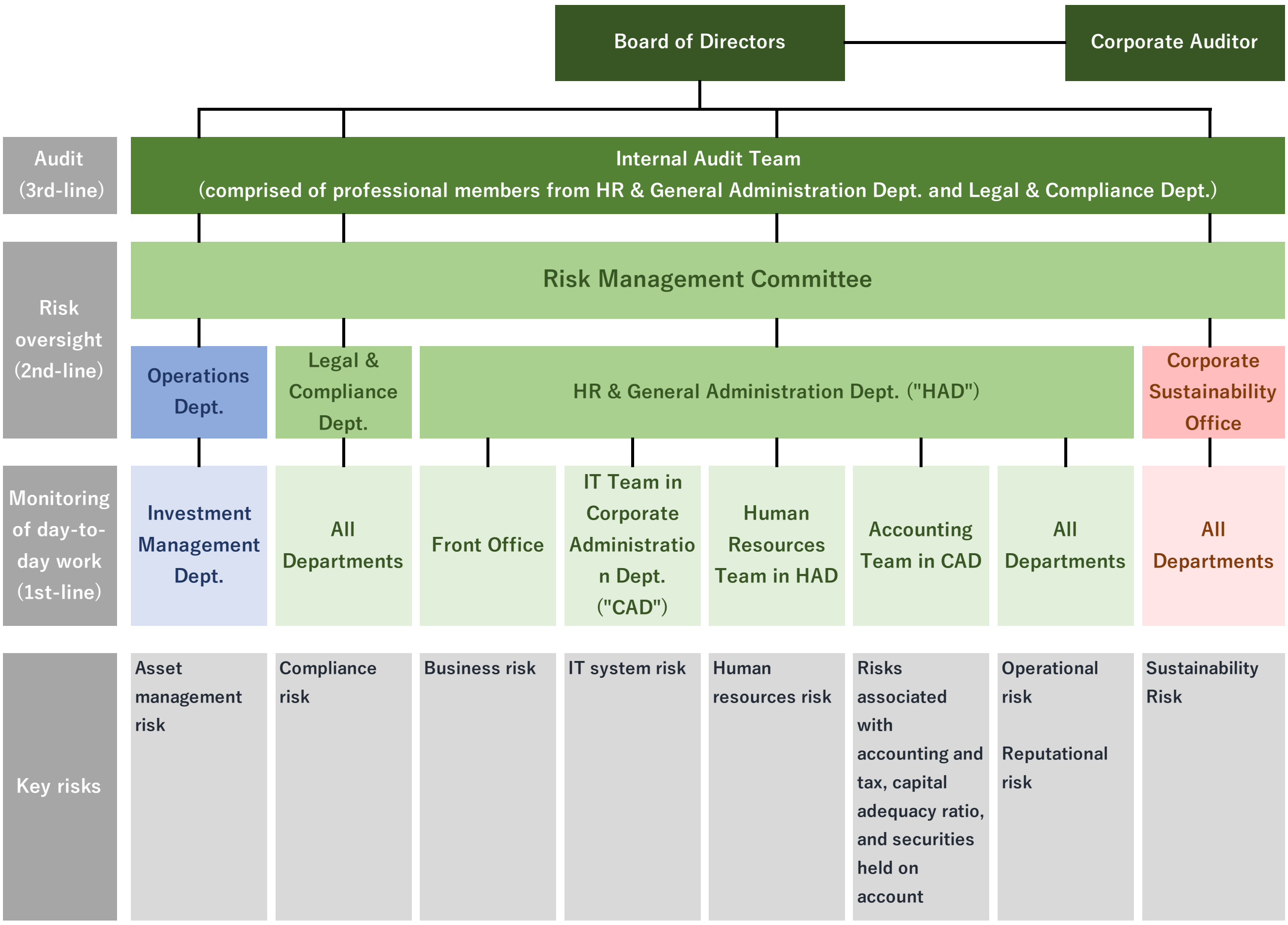
The results of the analysis for both the 1.5°C and 4°C scenarios show no significant changes from the previous year. Although a decline in revenues is likely if we can’t respond well to climate change risks and opportunities, it may not be so large, and in fact we may be able to grow revenues if we can 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 Sustainable Investment Policy.

Risk Management

We have identified 11 categories of key risks including “Sustainability Risk.” Climate change risk is included in this Sustainability Risk and is managed within the company-wide risk management framework.

Risk Management Structure (as of October 1, 2024)



In the company-wide risk management framework, we further subdivide the 11 key risks in our newly established Risk Control Matrix (RCM), and conduct risk assessment for each risk item and monitor the status of our risk responses using the matrix. In FY 2023, we added the category of “Sustainability Risk” in this RCM framework. The new risk category includes climate change-related risk items such as the risk of cost increases to operate our office due to climate change or regulatory tightening related to climate change, and the risk of reputational damage due to opinions that the sustainability information we disclose, including climate change-related performance, is of poor quality or that our commitment to sustainability is insufficient.

RCM is reviewed annually on a company-wide basis and formally determined by the Risk Management Committee. The Risk Management Committee reports the status of risk management to the Board of Directors at least once a year.

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 we select investment managers who have clearly-stated policies to address ESG risks (including climate change risks) and are capable of assessing and managing them, and to engage in dialogue with such managers to reduce risks.

As part of pre-investment due diligence, the Investment Management Department conducts ESG scoring using our own evaluation method based on the Sustainable Investment Policy (formerly the "ESG Investment Policy") established in August 2021 and last revised in July 2024. In addition, qualitative evaluation is made for each manager and fund in terms of ESG integration experience, organizational structure, internal policies, human resources, and ESG reporting. The results of this ESG score and qualitative assessment influence the final decision making by the Investment Committee that is responsible for selection of the managers. Scoring criteria are shared across all asset classes and strategies, but the ESG risks such as climate change risks have different degrees of impact on 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 example, if any negative news on the manager is reported, we require them to report to us. We also review the ESG scores of existing managers at least annually.

In the revision of the ESG Investment Policy in July 2024, we confirmed our stewardship responsibilities. In line with this, we also reviewed the assessment items and criteria of the ESG scoring framework used for the evaluation of funds and investment managers, aiming to focus more on asset-class specifics and strengthen the effectiveness of post-investment monitoring.

Metrics and Targets

CO_2 Emissions from Our Business Activities

Most of our CO_2 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). With regard to the emissions associated with employee commuting and business travel, no measurement is planned at this stage, as our employees use public transportation and there is little room for further carbon reduction, meaning the impact may not necessarily be material. With that said, it may be considered in the future as the situation changes.

In FY 2023, we implemented two measures: 1) introduction of a new rule to automatically turn off all air conditioning on the working floor at 6:00 p.m. to eliminate the risk that workers forget to manually do so, and 2) reminding employees of how to switch off the air-conditioning system when returning home. This contributed to reduction of electricity consumption attributable to office lighting and air conditioning, and as a result, CO_2 emissions were reduced by approximately 25% from the previous year.

CO_2 emissions in the past 5 years (kg-CO_2)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Scope 1	0	0	0	0	0
Scope 2	77,291	66,950	73,051	80,829	60,213
Scopes 1+2	77,291	66,950	73,051	80,829	60,213

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

CO_2 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 the CO_2 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, so in the new ESG scoring framework, we added an item to confirm whether CO_2 emissions are disclosed by the manager. We look to keep track of and disclose actual CO_2 emissions to the greatest extent 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 FY 2022. In the latest fiscal year 2023, private placement of a Forest fund contributed to the placement amount below.

Private Placement Amount (since our company's inception) of funds that contribute to resolving climate change issues*[1] (Securities Business)

	As of March 31, 2023	As of March 31, 2024
Amount (since our company's inception)*[2]	JPY164.3 billion	JPY166.9 billion

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

*2: Private placement amount (since our company's inception) as of March 31, 2023 includes all amounts of fund placement in foreign currencies since our company's inception that have been converted to yen based on the exchange rate as of March 31, 2023. Private placement amount (since our company's inception) as of March 31, 2024 is the sum of the amounts as of March 31, 2023 and the amount of fund placement in FY2023 (the exchange rate as of March 31, 2024 was used to convert the amount sold that year in foreign currencies).