



➤ NextGen ESG Japan Annual Report 2025

SDG
Impact Japan



Asuka Corporate Advisory Co., Ltd.

Foreword



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Dear Reader,

As we step into a new era of impact investment, we are focused on the significant impact that Japanese small and mid-cap companies can create. We are committed to identifying emerging leaders who will drive positive change and innovation within this dynamic investment landscape. At SDG Impact Japan, we recognise the pivotal role that these firms play in the Japanese economy, representing a significant portion of listed companies and employing millions across the nation.

NextGen ESG Japan Strategy is strategically positioned to harness the transformative potential of these midsize enterprises, leveraging their unique capacity to drive sustainable growth and innovation. In recent years, the Japanese financial markets have demonstrated remarkable resilience and promise. In 2024, the Nikkei 225, one of Japan’s major stock markets, surged by 19.2%, surpassing its previous peak from 1989 and setting an all-time high. Despite some volatility along the way, the Japanese stock market delivered respectable returns in 2024.

This resurgence is not merely a reflection of favourable economic conditions; it is advancing alongside a broader shift marked by a more proactive approach to impact investing and the integration of Environmental, Social, and Governance (ESG) principles into corporate strategies. The Japanese government's committed policies, such as the Green Transformation initiative, are redefining the investment landscape, ensuring that sustainability is not just an option but a necessity for businesses aiming for long-term success. Amidst this progress, there has been a narrative of headwinds for ESG investing in some geographies outside of Japan. But it is important to recognise that the context on the ground in Japan is different. Many companies in Japan are actively embracing sustainable practices and engaging in meaningful dialogues around ESG issues.

In fact, substantial advancements being made in corporate sustainability and the genuine commitments of businesses to integrate these principles into their operations. In 2024, according to the Impact Investing Survey 2024 conducted by

GSG Impact Japan National Parner, impact investment assets in Japan reached approximately 17 trillion Japanese Yen, reflecting a continued upward trend and highlighting a growing commitment to ESG principles among investors.

Our engagement with portfolio companies emphasises a collaborative approach, fostering deep dialogues that empower these firms to embed ESG considerations into their core operations. We take pride in the achievements we have made, including:

- **Receiving the prestigious GOLD rating from BlueMark, recognising our commitment to high standards in impact strategy, governance, management, and reporting.**
- **Successfully increasing the number of companies in our portfolio that have implemented carbon emission reduction initiatives, contributing to Japan's goals for a sustainable future.**
- **Actively engaging with companies to adopt policies that enhance gender equality, resulting in measurable improvements in female representation at management levels across our portfolio.**
- **Facilitating significant advancements in human rights practices within our portfolio companies, ensuring that ethical considerations are prioritised throughout their supply chains.**

These efforts not only enhance the market positions of these companies but also contribute to a sustainable future, where businesses thrive alongside the communities they serve. The commitment of Japanese small and mid-cap companies to evolve their business models reflects their resilience and adaptability, traits that are essential for navigating the world’s complexities.

As we look ahead, we remain steadfast in our mission to identify and support the future leaders of sustainable business in Japan. Our ongoing active engagement with these companies will continue to create significant impact, both financially and in terms of sustainability.

Together, we are not merely investing in companies --we are investing in a better, more sustainable future for all.

Note: Bluemark <https://bluemark.co/>,
<https://bluemark.co/app/uploads/2025/07/sdj-impact-japan-fund-id-case-study.pdf>;
https://impactinvestment.jp/user/media/resources-pdf/gsq-2024_en.pdf

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Our mission

NextGen ESG Japan’s mission is to contribute to the global efforts to limit global warming to 1.5 degrees and shift to a sustainable path for humanity. This strategy seeks transformational change in the business models of the companies we select. The core element of our philosophy is the belief that ESG factors can directly affect long-term business profitability.

NextGen ESG Japan is an outcome-driven strategy that occupies a distinct position in the global ESG investment universe by combining deep engagement, measurable sustainability targets, and a dedicated focus on small-medium size listed Japanese companies.

The objective of the strategy is to accelerate sustainable transition of businesses as well as to generate long-term capital appreciation by investing in a long-only concentrated equity portfolio of small and medium size Japanese companies.

Concept and Strategy

In an era where the alignment of investment strategies with environmental, social, and governance (ESG) principles is no longer optional but imperative, NextGen ESG Japan stands at the forefront of impact investing. Our strategy is designed to not only navigate the complexities of the modern financial landscape but to actively contribute to a more sustainable and equitable world.

This section of our annual report delineates the foundational concepts and strategic approaches that underpin our investment philosophy, showcasing our commitment to both financial returns and positive societal impact.

ESG for Return and Impact: Strategic Focus

Our investment philosophy is grounded in the belief that ESG considerations are not only corporate responsibility imperatives but also key drivers of financial performance, when managed properly and linked to core business of the companies. We focus on strategic ESG issues that have a strong link with company’s products and services, corporate strategy, and corporate value, so that our engagements are not only impactful in terms of societal benefits but also contribute to the long-term financial sustainability and growth of our portfolio companies. This dual focus on return and impact is central to our strategy, reflecting our commitment to redefining the role of capital in achieving a sustainable future.

Targeting Untapped Potential: Small and Mid-Cap Investments in Japan

Our focus is on small and mid-cap listed equities in Japan, a market brimming with untapped potential and opportunities for significant ESG-driven value creation. The choice of this focus area is strategic, informed by our deep understanding of the Japanese market dynamics and the unique opportunities it presents for impact investing. Our strong fundamental analysis, and engagement team, based on the ground in Japan, possesses the expertise and local insights necessary to identify and capitalize on these opportunities, promoting that our investments and engagements are both impactful and profitable.

A Friendly Activist Approach: Deep Dialogues and Dedicated Engagements

At the core of the investment methodology of the strategy is a friendly activist approach. We engage in deep constructive and focused dialogues and dedicated engagements with our portfolio companies, fostering a culture of openness and constructive collaboration. This approach is designed to drive meaningful

change from within, encouraging companies to integrate ESG considerations into their corporate strategies and operational practices. Our concentrated portfolio allows us to maintain a high level of engagement with each company, so that our interventions are tailored, strategic, and effective.

A Commitment to Sustainability

NextGen ESG Japan is aiming to dedicate to achieving clear and measurable sustainability objectives for transparency and accountability in impact investing. Our adherence to the sustainability objectives is a reflection of our core belief in the importance of embedding key material and financially relevant ESG considerations at the heart of our investment strategy.

In conclusion, the strategic approach of NextGen ESG Japan is characterized by a rigorous commitment to prudent portfolio construction, sustainability, strategic focus on high-potential Japanese equities, a collaborative engagement strategy, and a dual focus on financial returns and positive societal impact. Our strategy is uniquely positioned to offer an opportunity to contribute to a sustainable future while achieving strong financial returns. Through our dedicated efforts and strategic engagements, we are not only navigating the complexities of the ESG landscape but also actively contributing to shaping a more sustainable and equitable world.

The Fund currently invests in 27 Japanese companies to create economic value and impact through active engagement. The 27 companies are screened using a proprietary ESG assessment model and then strategically selected based on a rigorous analysis that integrates both financial and ESG perspectives. Company selection is based on a bottom-up approach, and the portfolio is built with companies from a very broad range of sectors, including manufacturing, consumer products, financials, retail, etc.

Theory of Change

The Theory of Change for the NextGen ESG Japan defines how our investment and engagement strategy is designed to create long-term, measurable impact through listed equities.

Designed in alignment with the GIIN framework*, it outlines the societal challenges we aim to address—such as decarbonization, human capital development, governance reform, and gender equality—and links them to intended beneficiaries, including portfolio companies and broader society. It also clarifies how we, as investors, contribute to these changes through active engagement and portfolio design.

This structured framework serves as the foundation for setting non-financial goals and measuring progress across environmental, social, governance, and gender dimensions.

*GIIN Guidance for pursuing impact in listed equities 1 April '23

A

The specific problems that the investment strategy will target



- **Achieve corporate management that leads to sustainability impact realization**
- **Promote carbon neutrality (GHG emission reduction) and gender equality initiatives, especially in Japanese companies**
- **Strengthening human capital management and governance in Japanese companies** to achieve this goal.
- Realize environmental and social impact of each issue by strengthening initiatives for other ESG issues of high importance for each investee company.

B

The beneficiaries that would benefit

Short-term

- Reduction of GHGs in society as a whole through reduction of GHGs in portfolio companies and expansion of their contribution to GHG reduction
- Improving the overall wellbeing of portfolio companies through the promotion of gender equality in portfolio companies

Medium- to Long-term

- Accelerate society-wide GHG reductions by making portfolio companies best practices in GHG reduction and mitigation contributions
- Promoting gender equality throughout society by making portfolio companies best practices in gender equality

C

How the investor will contribute to that change / How the intended impact will affect portfolio construction and management.

How to Contribute

- Identifying and analyzing key sustainability issues of portfolio companies and communicating them to the portfolio companies
- Engagement with portfolio companies to promote and deepen their efforts to address key sustainability issues
- Engagement for effective disclosure that also leads to best practices for portfolio companies

Portfolio construction and management

- Initial screening based on independent ESG assessment
- Selection of individual stocks, including analysis of performance from an ESG perspective and room for improvement in ESG initiatives
- Identification of ESG issues of high strategic importance and examination of hypotheses for addressing them

D

The changes that the fund is seeking to achieve / The non-financial targets that will play a material role in the selection of equities and ongoing evaluation of performance

Environment

- Improve the temperature trajectory path of each portfolio company to 1.5 degrees Celsius over a 3–5-year investment period.

Social

- Human capital of each company in the portfolio Improve management performance and disclosure of key social indicators for each company over a 3-5 year investment horizon

Governance

- Improve the quality of governance of each portfolio company and the disclosure of each company's key governance indicators over a 3-5 year investment horizon

Gender

- Gender balance and gender in leadership positions at portfolio companies Improve the wage gap over a 3-5 year investment period

Fund Sustainability KPI and Progress

As an integral component of our commitment to impact investment, NextGen ESG Japan employs a structured approach to monitoring and enhancing the ESG performance of our portfolio companies.

Our framework is built around four sustainability objectives: Environment, Social, Governance, and Gender. Each objective is rigorously assessed through two key performance indicators (KPIs), enabling us to measure progress and drive impactful engagement. While our approach is proprietary and tailored to the characteristics of our investment universe, it incorporates key elements of international best practices for impact measurement and management.

Our efforts have also been independently reviewed across all key dimensions—strategy, governance, management, and reporting—by BlueMark, a global third-party verifier, which awarded us a “GOLD” rating. (Further details are provided in the Testimonials section.) This section details our objectives, KPIs, and the progress we have made, underlining our commitment to not only financial returns but also to making a positive impact on society and the environment.

All KPIs are monitored for progress using the values as of the fund's inception in April 2022 as a baseline.



**Environment:
Commitment to a
Sustainable Future**

**KPI1:
Share of Companies with Carbon
Emission Reduction Initiatives
(Scope 1+2)**

We measure the percentage of our portfolio companies disclosing both their current CO2 emissions and their reduction targets. Our focus includes companies undertaking initiatives limited to Scope 1 and 2 emissions at domestic sites, aiming for full disclosure across all scopes in the future. This KPI reflects our dedication to supporting our portfolio companies in their journey towards aligning with a 1.5 °C climate trajectory path.

**KPI2:
Portfolio Carbon Emission
Intensity (WACI2) (Scope 1+2)**

The Weighted Average Carbon Intensity (WACI) for Scope 1 and 2 emissions across our portfolio companies is calculated by dividing annual CO2 emissions by annual sales, adjusted for our portfolio inclusion ratio. This metric underscores our commitment to reducing carbon footprint and enhancing transparency in emissions reporting.



**Social: Enhancing Human
Capital and Addressing
Material Social Issues**

**KPI1:
Share of Companies with
Disclosed Policy and
Management for Sector Material
Social Issues**

We track the percentage of our portfolio companies that disclose their policies, organizational structure to implement the policies, and actual initiatives to address material social issues pertinent to their business. Comprehensive disclosure is required for all identified critical social issues, emphasizing our focus on social responsibility and impact.

**KPI2:
Share of Companies with
Improving KPI of Strategically
Important Human Capital Issues**

This KPI assesses the improvement in human capital development metrics that are closely linked to the mid- to long-term strategies of our portfolio companies. It highlights our strategy’s emphasis on human capital as a pivotal element of corporate value and sustainability.



**Governance:
Strengthening
Corporate Governance**

**KPI1:
Share of Companies that
Incorporate Links to
Sustainability Topic with
Governance Structure**

Our focus here is on the percentage of portfolio companies that have integrated sustainability considerations into their governance frameworks, including the establishment of a Sustainability Committee reporting to the Board and reflecting sustainability KPIs in director compensation. This KPI demonstrates our commitment to enhancing governance structures to support sustainability.

**KPI2:
Share of Companies with More
Than 33% of Independent Board
Members**

We measure the proportion of our portfolio companies where at least one-third of the board comprises independent directors, promoting diversity and independent oversight in governance practices, in accordance with the corporate governance guideline in Japan.



**Gender: Promoting
Gender Equality**

**KPI1:
Average Percentage of Women in
Board / in Management Level**





This KPI calculates the simple average percentage of women on the boards and in management positions across our portfolio companies, reflecting our commitment to gender diversity in leadership.

**KPI2:
Share of Companies with
Improving Pay Gap Since
Inception of the Fund**

We assess the percentage of companies that have shown improvement in the gender pay gap since the fund’s inception, underlining our dedication to fostering gender equality in the workplace.

Progress Update (as of 2025 1Q)

All the KPIs have been improved since the inception of the fund in April 2022

<div><div>Environmental</div></div>	A	Share of companies with carbon emission reduction initiatives (Scope 1+2)	100%	←	76.9%	+23.1%
	B	Portfolio carbon emission intensity (WACI) (Scope 1+2)	0.53 tCO2e/mil JPY	←	1.52 tCO2e/mil JPY	-0.99 tCO2e/mil JPY
<div><div>Social</div></div>	C	Share of companies with disclosed policy and management for sector material social issues	81.0%	←	47.6%	+33.4%
	D	(Human capital management related KPI to be added)	Companies are still in a middle of disclosing the date			
<div><div>Governance</div></div>	E	Share of companies that incorporate links to sustainability topic with governance structure	55.6%	←	23.1%	+32.5%
	F	Share of companies with more than 33% of independent board members	100%	←	96.2%	+3.8%
<div><div>Gender</div></div>	G	Average percentage of women in board / in management level	20.7% / 10.0%	←	13.5% / 7.3%	+7.2% / +2.7%
	H	Share of companies with improving pay gap since inception of the fund	Companies are still in a middle of disclosing the date			

Improvements of the KPIs to be persuaded in 3-5 years of investment horizon

Engagement Outcome Analysis – “NextGen ESG Progress Analysis” & “ESG Premium”

Analysis Overview

In the NextGen ESG Japan, an analysis of portfolio companies was conducted from both non-financial ("NextGen ESG Progress Analysis") and financial ("ESG Premium") perspectives to evaluate the effectiveness of engagements carried out every quarter since the start of the investment.

"NextGen ESG Progress Analysis"

The strategic ESG initiatives and disclosure status of portfolio companies were scored, and their progress was evaluated by categorizing them into 64 cells.

Evaluation Scheme

The ESG-related implementations and disclosures of portfolio companies are evaluated on an 8-level, 64-cell matrix using a scoring system of 0 to 3 points and ± modifiers for each axis.

Evaluation Criteria

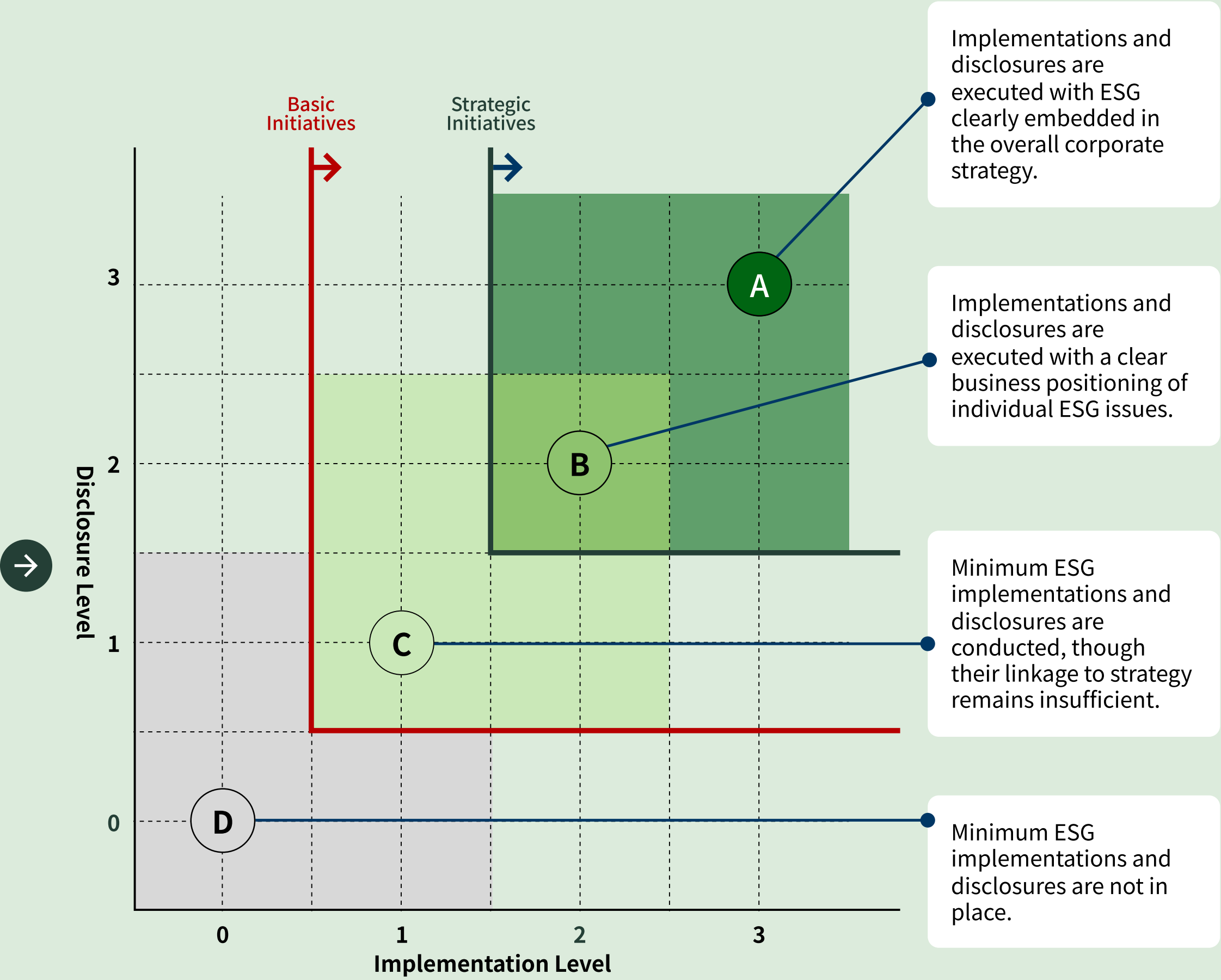
Implementation (Horizontal Axis)

- 0 points:** Lacks sufficient identification of issues and KPIs related to offensive, defensive, and foundational ESG challenges.
- 1 point:** Identifies issues and KPIs for each of the offensive, defensive, and foundational ESG challenges, and is working on improving those KPIs.
- 2 points:** Has implemented ESG measures tied to the business for particularly critical issues, and KPI improvements are progressing.
- 3 points:** All ESG issues are linked to the company’s strategy, and KPIs have either reached the appropriate level or are on track to do so.

Disclosure (Vertical Axis)

Implementation (Horizontal Axis)

- 0 points:** Lacks disclosure on commonly expected ESG items.
- 1 point:** Discloses commonly expected ESG items.
- 2 points:** Clearly positions each ESG item within its strategy and provides disclosure that is well-regarded by investors.
- 3 points:** In addition to disclosing individual ESG items, reflects overall ESG implementations in corporate strategy and provides disclosure that is well-regarded by investors.



ESG Premium

The ‘ESG Premium’ shows how much more (or less) a company’s stock is valued compared to its industry peers, after excluding factors such as capital efficiency (ROE), industry factors, and size factors.

To calculate this, a “theoretical PBR” was estimated based on the company’s ROE and a regression analysis of similar companies. These peers are selected based on similarities in business type, market size, and other relevant factors.

The ESG Premium is defined as the ratio of the actual PBR to this theoretical PBR. By comparing this ratio at the time of investment (e.g., March 2022) and the most recent period (e.g., December 2024), we can track how the market’s valuation of the company has changed over time.

We framed that an increase in the ESG Premium indicates the company’s stock is being valued more highly than peers — beyond what can be explained by financial performance alone. This may reflect improved corporate value through ESG efforts.

Calculation of ESG Premium

<Definition of ESG Premium>

- The difference in valuation between the target company and its industry peers, after excluding factors such as capital efficiency (ROE), industry factors, and size factors.

ESG Premium

=

$$\left(\frac{\text{PBR}_{\text{Target Company}}}{\text{PBR}_{\text{Theoretical Value}}} \right) - 1$$

PBR_{Theoretical Value}

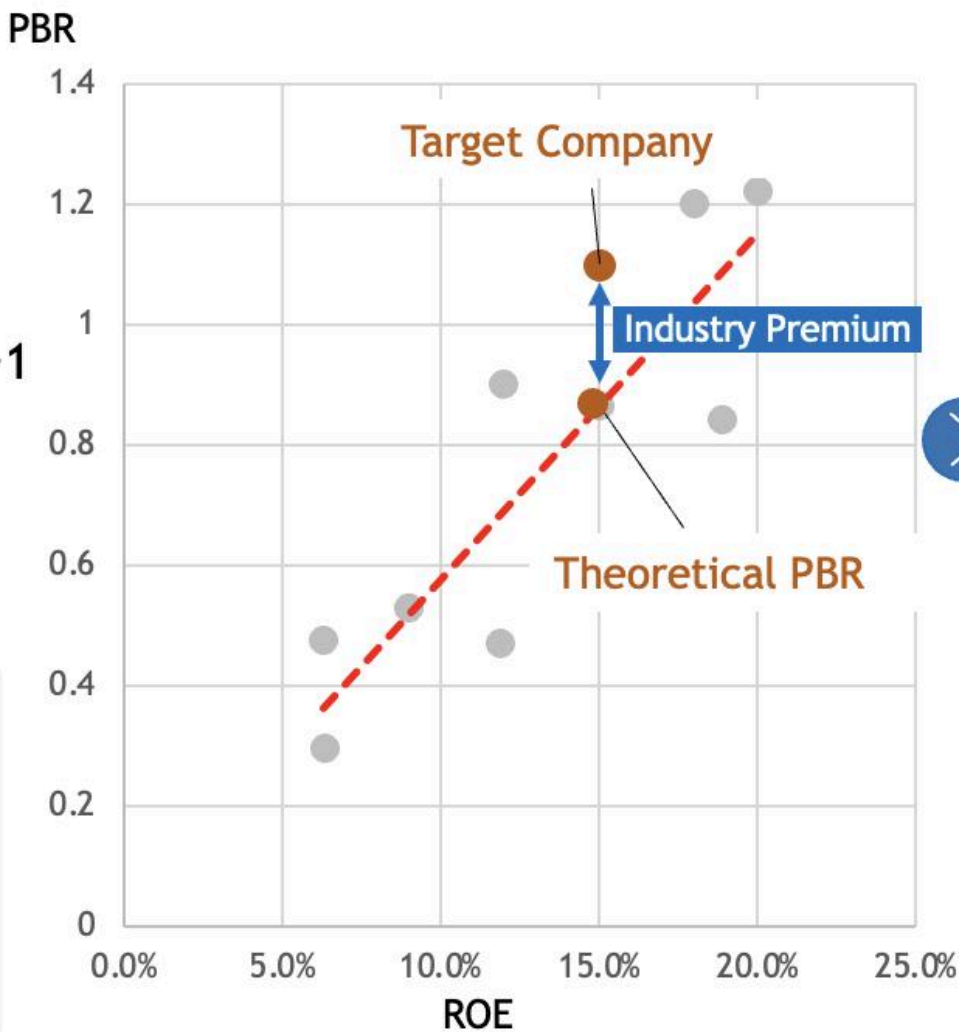
=

$$\text{PER}_{\text{Industry Estimate}} \times \text{ROE}_{\text{Target Company}}$$

- PBR is formulated as the dependent variable, and ROE as the independent variable, with the coefficient defined based on a regression analysis of industry peers.
- Industry peers are selected based on similarities in business activities, market capitalization, and other relevant factors.

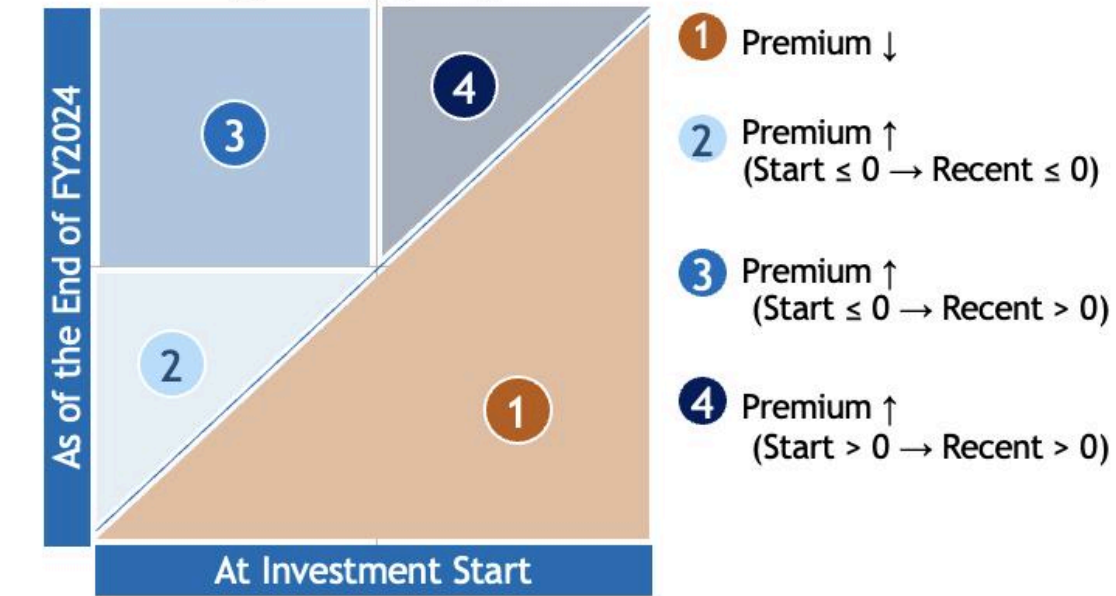
$$\text{PBR}_{\text{Industry Peers}} = \text{PER}_{\text{Industry Estimate}} \times \text{ROE}_{\text{Industry Peers}}$$

<Conceptual Diagram>



Comparison Between Fund Inception and the Most Recent Status

- By comparing the “ESG Premium” levels of each company at the time of fund inception (end of March 2022) and the most recent point (end of December 2024), companies are classified into the following four groups:



If above the 45-degree line on the graph (2 3 4), the “ESG Premium” has improved compared to the investment time.

An increase in the “ESG Premium” indicates that the company’s stock is being valued more highly than that of its competitors in response to changes in ROE. (In cases where financial performance has improved, this reflects a greater enhancement in corporate value compared to peer companies.)

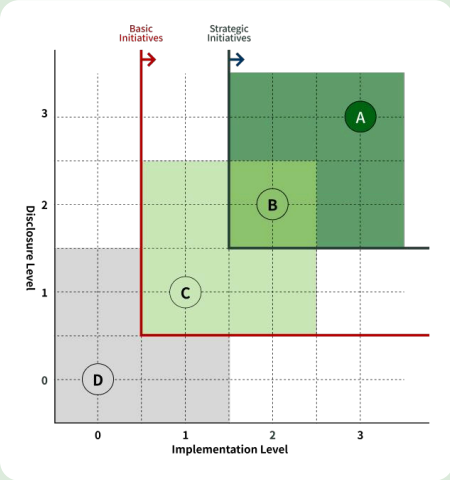
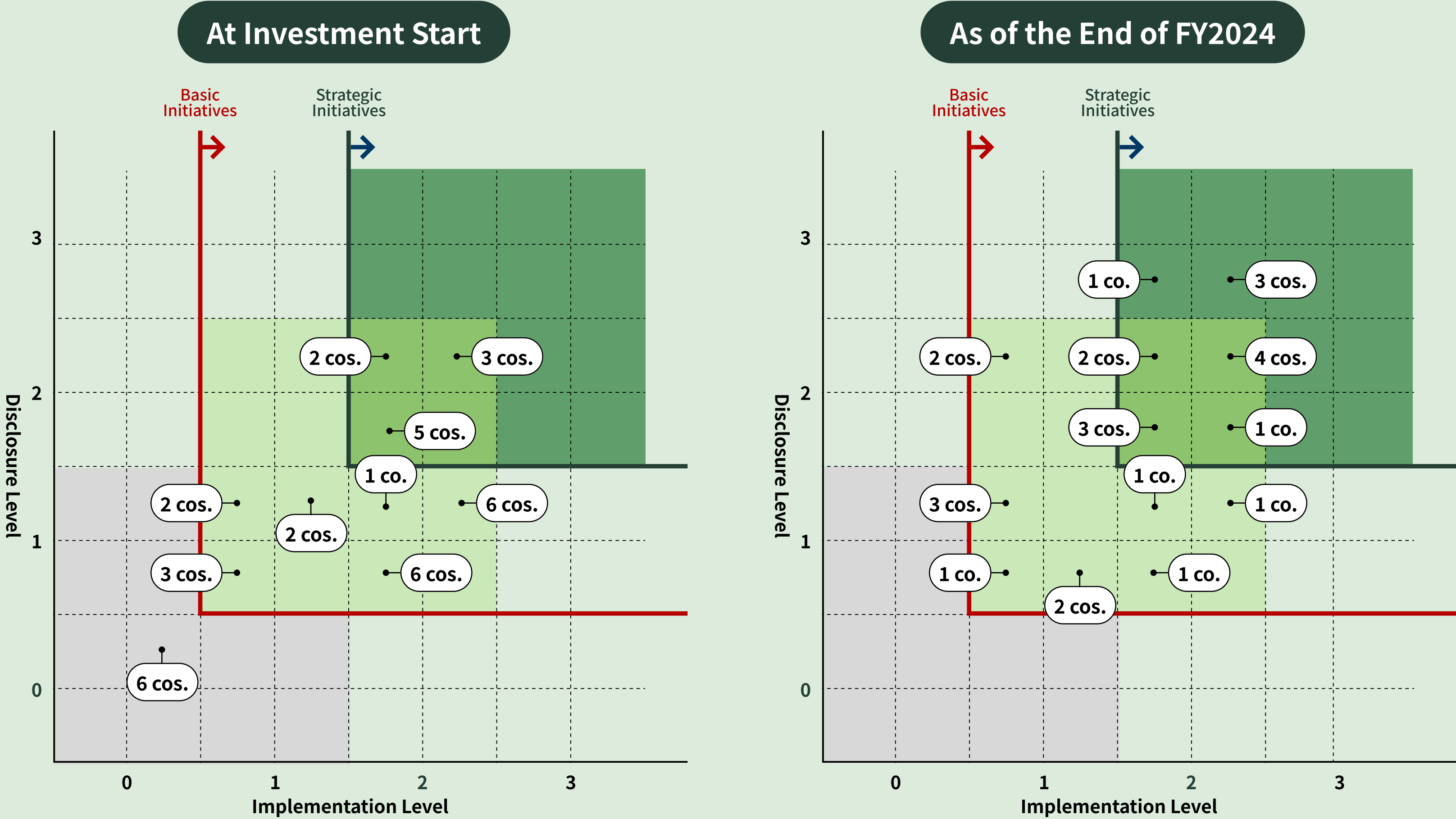
Analysis Results

Comparing the status of each portfolio company at the time of investment initiation (beginning of FY 2022) and the most recent period (end of FY 2024), improvements and progress were observed both in non-financial and financial aspects overall.

NextGen ESG Progress Analysis

Compared to the start of the investment, the overall portfolio companies shifted towards the upper-right direction of the 64-cell grid.

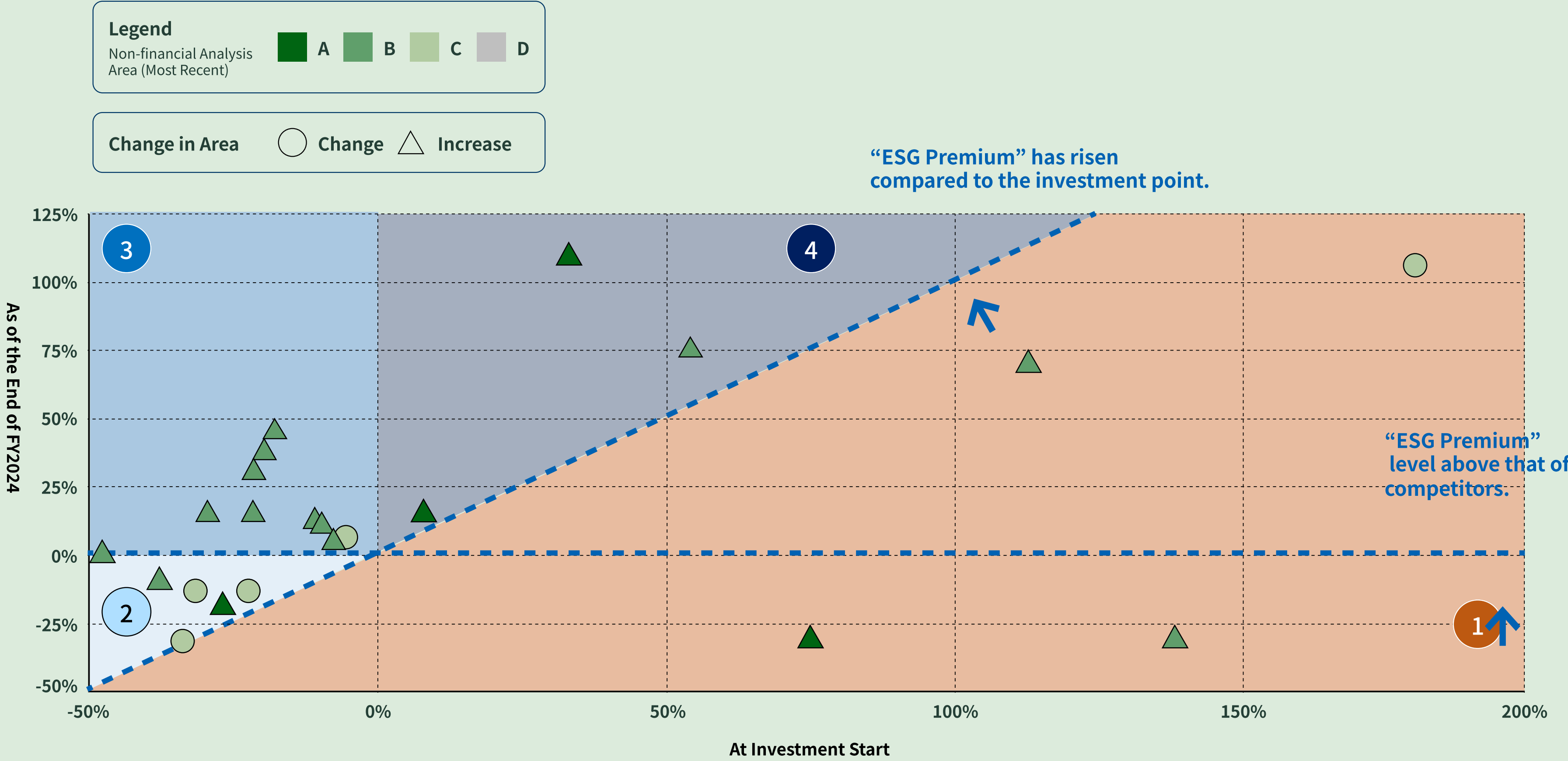
Specifically, six companies that had not yet reached the Basic level at the beginning of the investment all progressed to above the Basic level, and the number of companies making Strategic level increased from 10 to 16.



- A Implementations and disclosures are implemented with ESG clearly positioned within the overall corporate strategy.
- B Implementations and disclosures are executed with a clear business positioning of individual ESG issues.
- C Minimum ESG implementations and disclosures are implemented, though linkage to strategy remains insufficient.
- D Minimum ESG implementations and disclosures are not in place.

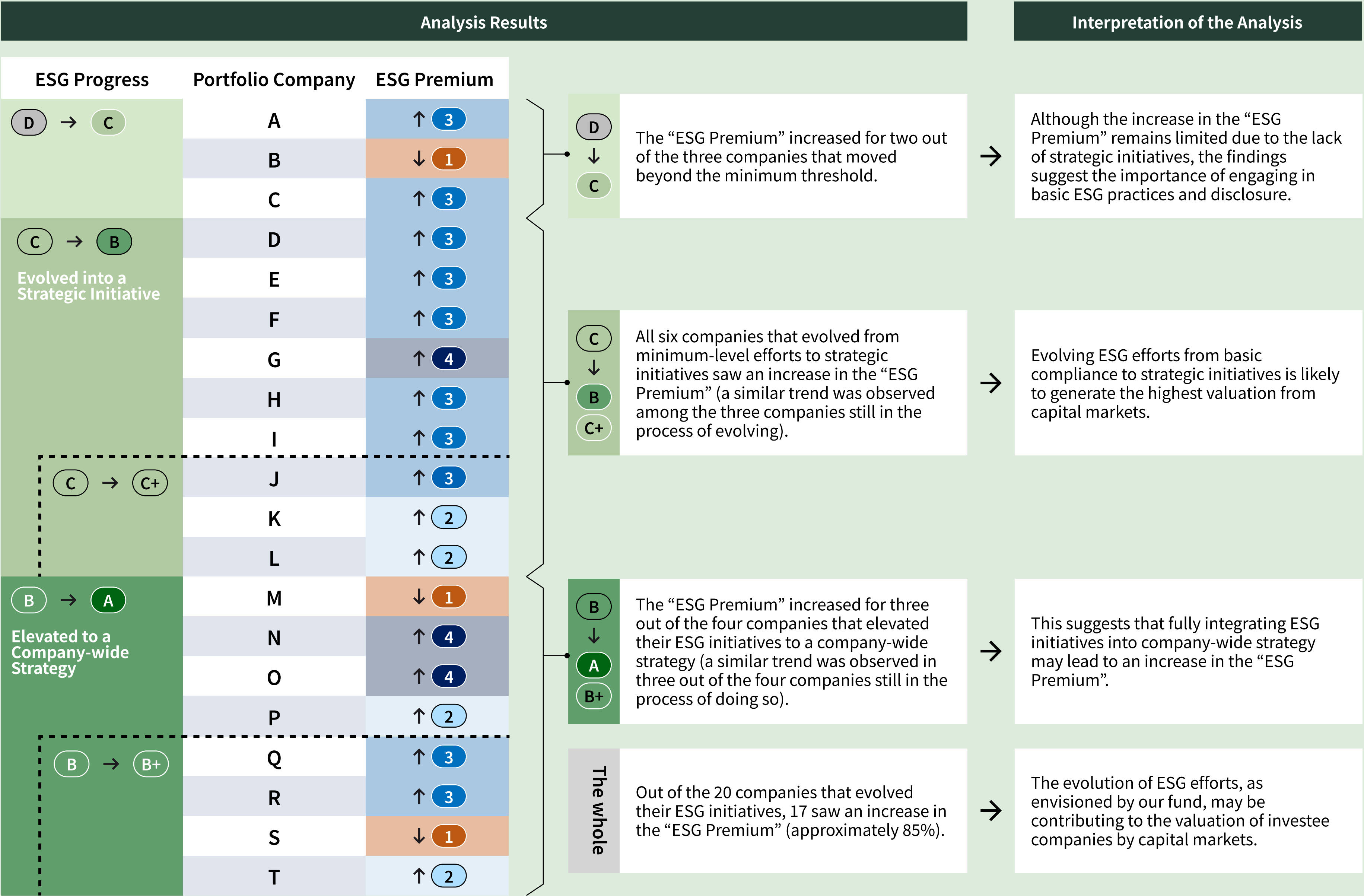
ESG Premium

Out of 22 companies, excluding those with significant temporary financial impacts, 15 companies had an "ESG Premium" above that of their competitors, and 18 companies showed an increase in the "ESG Premium" compared to the time of investment initiation.



The Relationship Between "NextGen ESG Progress Analysis" and "ESG Premium"

As ESG efforts deepened, there was an overall upward trend in the "ESG Premium." This trend was particularly evident in portfolio companies that advanced their ESG initiatives into more strategic actions.



(Reference) Changes in ESG Performance for Companies with Rising "ESG Premium" (Example)

Example 1: Electronics Manufacturer

Portfolio Company	ESG Progress	ESG Premium	Initial ESG Status at Investment	>	Recent ESG Status & ESG Premium Trends*	(Reference) Fund ESG Engagement
Electronics Manufac-turer	<div><div>C</div><div>↓</div><div>B</div></div>	↑ 3	<ul style="list-style-type: none">While the company has implemented the minimum level of ESG disclosure generally expected, there are shortcomings in identifying material issues based on its business and management strategy.In particular, there is room for improvement in addressing and disclosing Scope 3 emissions—especially relevant in industries like automotive—and in setting quantitative targets for products that contribute to sustainability.	>	<ul style="list-style-type: none">As part of the medium-term management plan, the company has newly set quantitative sustainability targets linked to its business, such as the sales growth rate of sustainable products and the sales growth rate of products used in applications that contribute to the SDGs.Disclosure of Scope 3 emissions has begun (Japan’s new disclosure standards by the SSBJ also emphasize Scope 3. Going forward, it will be necessary to set reduction targets and implement related measures for Scope 3).	<ul style="list-style-type: none">In formulating the medium-term management plan, it was recommended to add the expansion of environmentally conscious products (sustainable products) as a material ESG issue closely linked to the medium-term strategy, and to set KPIs such as the sales ratio, along with progress monitoring.In fact, the company revised its sustainability targets in the 2024 medium-term management plan in line with the proposed recommendations.

*It is difficult to explain changes in the “ESG Premium” solely based on ESG initiatives, but the following are factors from an ESG perspective that may be influencing the “ESG Premium”.

Example 2: Aluminum Manufacturer

Portfolio Company	ESG Progress	ESG Premium	Initial ESG Status at Investment	>	Recent ESG Status & ESG Premium Trends*	(Reference) Fund ESG Engagement
Aluminum Manufac-turer	<div><div>C</div><div>↓</div><div>B</div></div>	↑ 3	<ul style="list-style-type: none">Although the company provides the minimum level of ESG disclosure recognized by third-party institutions, there are shortcomings in identifying material issues based on its business and management strategies.In particular, there is room for improvement in initiatives that translate the environmental characteristics of aluminum (such as its light weight and high recyclability compared to alternative materials) into value.There is also room for improvement in initiatives and disclosures related to human capital and governance, particularly with a focus on medium- to long-term strategy and improving capital efficiency in the short term.	>	<ul style="list-style-type: none">The company is advancing initiatives to leverage the environmental characteristics of aluminum for business expansion, and has newly set quantitative targets such as aluminum recycling rate and water withdrawal reduction. (Going forward, it will be important to evolve from intensity-based to absolute targets and to engage stakeholders.)Additional Scope 3 reduction targets have been set, in response to disclosure standards and increasing attention from capital markets.Measures and disclosures related to human capital and governance have also been improved to better reflect potential medium- to long-term financial impacts.	<ul style="list-style-type: none">"Contribution to the environment through products" was added as a material issue, and engagement was conducted to establish and manage KPIs such as the sales ratio of environmentally superior products. As a result, the company revised its sustainability targets in the medium-term management plan in line with our proposal.From the perspective of human capital and governance, the fund presented the viewpoint of capital markets. In response, the company began communicating ESG information with investors in mind—such as initiatives to visualize the financial impact of human capital and the sharing of external directors’ activities and key concerns—during its sustainability briefing.

*It is difficult to explain changes in the “ESG Premium” solely based on ESG initiatives, but the following are factors from an ESG perspective that may be influencing the “ESG Premium”.

Example 3: Regional Bank

Portfolio Company	ESG Progress	ESG Premium	Initial ESG Status at Investment	>	Recent ESG Status & ESG Premium Trends*	(Reference) Fund ESG Engagement
Regional Bank	<div><div>C</div><div>↓</div><div>B</div></div>	↑ 3	<ul style="list-style-type: none">The company implements comprehensive initiatives and disclosures across ESG as a whole.On the other hand, a key challenge is the insufficient response and disclosure regarding Scope 3 Category 15 (GHG emissions from investments and lending, i.e., financed emissions), which is the most important environmental aspect in the financial sector.	>	<ul style="list-style-type: none">Disclosure related to Scope 3, which is particularly important for financial institutions, has been enhanced, with concrete actions now being clearly reflected in disclosures.The company is considering support for GHG emissions reduction at investee and borrower companies (its own Scope 3) as part of its service offerings, thereby aligning ESG initiatives with its business strategy.	<ul style="list-style-type: none">Including direct discussions with the President, we have continued to engage in dialogue and make proposals regarding the bank’s environmental initiatives and its support for reducing GHG emissions at borrower companies, as well as related disclosures.By presenting case studies of Scope 3 initiatives by European regional banks and proposing concrete action plans, our recommendations were reflected in the company’s disclosures.

*It is difficult to explain changes in the “ESG Premium” solely based on ESG initiatives, but the following are factors from an ESG perspective that may be influencing the “ESG Premium”.



Deep Dive – GHG Emissions, Human Rights, and Gender Equality in Japan

1

GHG Emissions

To address the intensifying climate crisis, countries worldwide are advancing policies aligned with their Nationally Determined Contributions (NDCs) under the Paris Agreement, aiming for substantial emission reductions by 2030 and net-zero targets by 2050. Policy instruments such as carbon pricing, climate disclosure mandates, and technology incentives are gaining traction globally.

- In the United States, the Inflation Reduction Act (IRA) has catalyzed large-scale private investment in clean energy, while also encouraging innovation in areas such as AI-enabled climate solutions and carbon removal technologies.
- In the European Union, the regulatory foundation for sustainable finance continues to mature through the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy, directing capital toward climate-aligned economic activities. While discussions about potential regulatory recalibrations have emerged, the EU remains a leader in codifying sustainability at the institutional level.

Amid these global developments, Japan is preparing to implement its own market-based climate mechanism:

- Starting in April 2026, Japan will launch the GX Emissions Trading Scheme (GX-ETS), a cap-and-trade system targeting large emitters—defined as those releasing over 100,000 tons of CO₂ annually. Under this system, companies receive emissions allowances, and those exceeding their caps must purchase credits, while others may sell surplus allowances. The GX-ETS incorporates credit instruments such as J-Credits, JCM and GX Credits, and is designed to accelerate corporate decarbonization and support the national goal of carbon neutrality by 2050.

Complementary measures include planned government subsidies and the exploration of carbon taxation, signalling a multi-pronged strategy to embed climate accountability into corporate behavior. The NextGen ESG Japan is engaging with portfolio companies on how to navigate and contribute to this transition, including via high-integrity carbon credit

2

Human Rights

In 2024, the NextGen ESG Japan selected human rights as a deep-dive theme, reflecting its growing relevance to both corporate value and investment risk. Globally, regulations such as the EU’s Corporate Sustainability Due Diligence Directive (CSDDD) represent a shift from voluntary initiatives to enforceable human rights due diligence.

In Japan, although the government maintains a soft-law approach, domestic companies are facing increasing scrutiny—particularly following a series of high-profile human rights incidents that have led to reputational damage and market value decline. This, in turn, has triggered stronger demands from both domestic and international investors for enhanced oversight and transparency.

Corporate Sustainability Due Diligence Directive (CSDDD)

This regulation, adopted by the EU in 2024, is a legal framework that requires companies to conduct their business operations with due regard for human rights and the environment. It obligates companies of a certain size, both within and outside the EU, to identify and assess human rights violations and environmental risks not only within their own operations but also across their entire supply chains, and to implement corrective measures.

The directive also mandates transparent disclosure of relevant information and the establishment of grievance mechanisms, with potential sanctions for non-compliance. This initiative is part of a broader effort to promote sustainable corporate practices and reinforce corporate responsibility across global supply chains.

3

Gender Equality

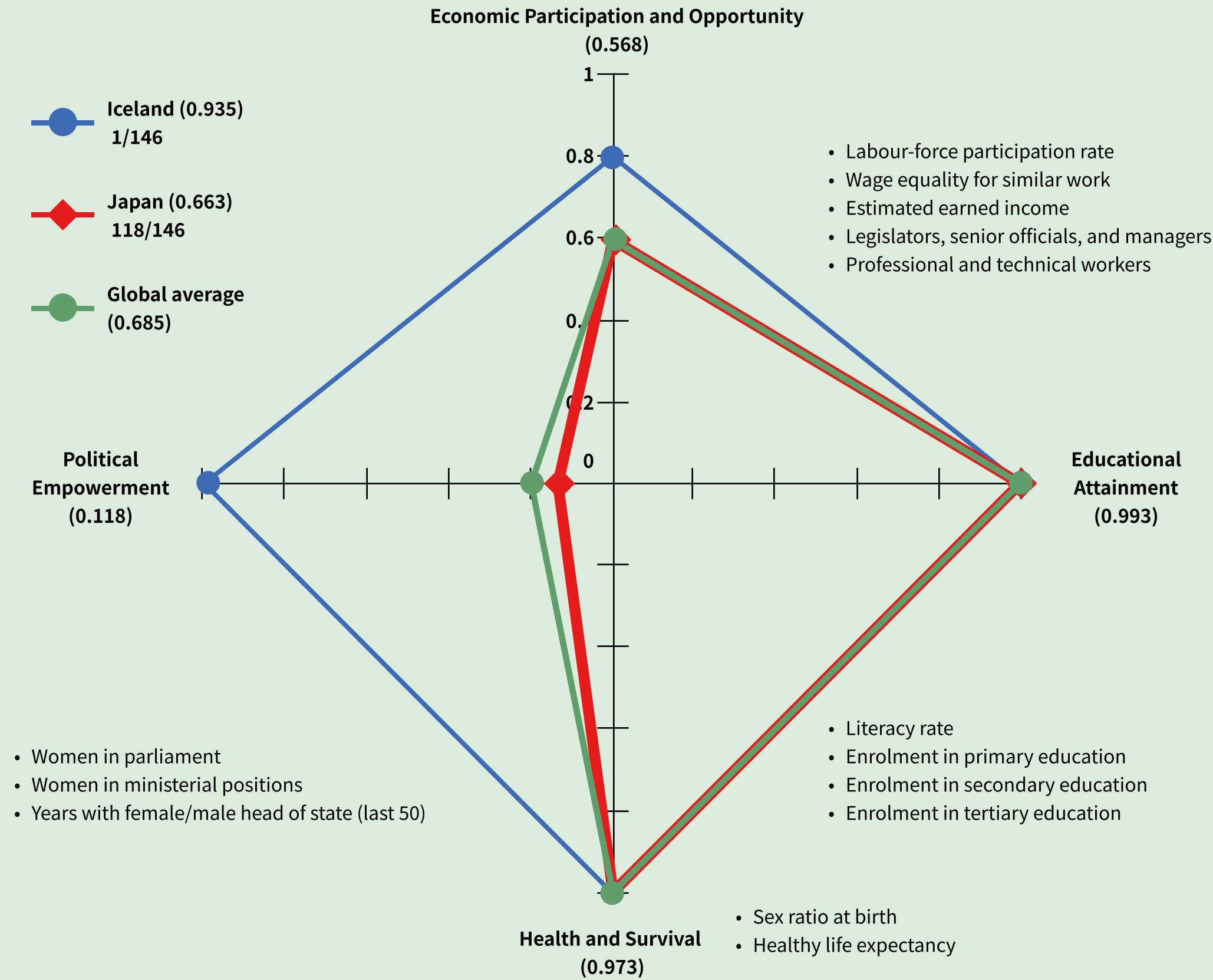
Interest in gender equality continues to grow in Japan, with the government promoting gender mainstreaming and international frameworks reinforcing the momentum. In addition to these public efforts, companies are increasingly expected to take concrete actions. In particular, the mandatory disclosure of the gender pay gap is pushing companies to respond in a more strategic and transparent manner. Moreover, Japan’s overall performance remains among the lowest across developed nations, adding urgency to meaningful reform.

Japan lags in global gender rankings

- Japan ranked 118th out of 146 countries in the 2024 WEF Global Gender Gap Index—among the lowest in the G7
- The gender pay gap stood at 22.1% in 2022, nearly double the OECD average of ~11%, reflecting deep structural inequality.

Low female representation in leadership roles

- Only about 11.4% of executives and board members in listed Japanese firms are women as of 2022, compared to ~30–45% in Western economies, according to the Cabinet Office
- Gender disparity is also pronounced in politics—less than 20% of parliamentary seats are held by women —and prefectural gender gap indicators routinely show significant regional disparities.



Notes:
1. Compiled based on the World Economic Forum’s Global Gender Gap Report 2024.
2. Indicators in italics are those for which no scores are given to Japan
3. Japan’s rank by subindex: 120th for Economic Participation and Opportunity, 72nd for Educational Attainment, 58th for Health and Survival, and 113th for Political Empowerment

Rank	Country	Score
1	Iceland	0.935
2	Finland	0.875
3	Norway	0.875
4	New Zealand	0.835
5	Sweden	0.816
7	Germany	0.810
14	United Kingdom (UK)	0.789
22	France	0.781
36	Canada	0.761
43	United States (US)	0.747
87	Italy	0.703
94	Republic of Korea	0.696
106	China	0.684
116	Bahrain	0.666
117	Nepal	0.664
118	Japan	0.663
119	Comoros	0.663
120	Burkina Faso	0.661

	Percentage of female members	Number of members	Number of female members
House of Representatives	11.0%	465	51
House of Councillors	26.4%	246	65
Total	16.3%	711	116

In response to this trend, the NextGen ESG Japan is engaging in discussions with its portfolio companies, referencing best practices, to advance initiatives and disclosures that clearly align with corporate value.

Source: Current Status and Challenges of Gender Equality in Japan (July 2024) - Gender Equality Bureau, Cabinet Office, Government of Japan

Engagement Case – Sports Goods Manufacturing and Sales Company & Regional Bank

1

Sports Goods Manufacturing and Sales Company

Company Overview

The company is a global player in the manufacturing and selling of sporting goods. It was founded with the vision of inspiring dreams in underprivileged children in post-World War II Japan through sports. Through strong leadership from CY2018, the company has achieved improved profitability via structural reforms, product streamlining that leverages its strengths, and strict inventory management.

Building on this efficient management structure, its strong product development capabilities have translated into robust sales power, driving market share expansion and growth in the global markets. We initiated our investment based on the view that the share price is undervalued compared with its growth potential. The company has cultivated a globally recognized brand, with approximately 80% of its revenue now generated from overseas markets. Manufacturing is concentrated in cost-competitive regions such as Vietnam and other parts of Asia. Remaining true to its founding vision, the company is aiming for further growth in the global market.

Strategic ESG Engagement

As outlined in the attached ESG equity story, integrating sustainability perspectives into business operations is essential for apparel companies to achieve growth. At NextGen, we have identified ESG issues that align with the company’s goal of becoming the most profitable and fastest-growing company in the industry globally. Over the past year, we focused particularly on the following themes in our engagement efforts:

Building a Fair and Transparent Supply Chain Management System

Like many companies in the apparel industry, the company outsources production to partners in Asia to maintain price competitiveness. As consumer awareness grows regarding environmental responsibility and the fair treatment of factory workers, companies are increasingly expected to take action across their entire supply chain. A failure to promote sustainability throughout the supply chain poses a material risk—potentially leading to brand damage and a decline in sales. Conversely, companies that offer environmentally conscious, circular-economy-aligned products and build fair, transparent partnerships with suppliers are more likely to enhance their brand image and increase market share. Since our initial investment, we have continued constructive engagement with the company on supply chain sustainability. This year, in particular, we focused on human

rights—an area facing accelerating regulatory developments worldwide. We determined that a globally coordinated compliance framework is essential.

Accordingly, we held discussions not only with the human rights team at headquarters, but also with the global human rights executive officer based in the United States. In instances where human rights risks surfaced at sites in Asia, we evaluated the responsiveness of top management and have maintained ongoing monitoring. Our engagement confirmed that the company is actively working to become a "better buyer" through the digitalization of production and inventory management. The company shares these data transparently with its suppliers. Such capabilities are not only operationally effective, but also critical for meeting stricter regulatory requirements in regions like the EU. What may traditionally be viewed as the financial side of strategy—such as inventory and production management—are, in fact, closely linked to ESG strategy. We recognize that the company’s strong integration of ESG and business operations represents a competitive advantage.

However, we also noted that these efforts are not yet sufficiently communicated to the investment community. We believe that enhanced transparency and communication around these initiatives could build investor confidence in the company’s long-term growth prospects and lead to an upward revaluation of its stock.

Balancing Sales Growth and Carbon Neutral Goals

The company is committed to achieving net-zero CO₂ emissions across Scopes 1, 2, and 3 by calendar year 2050. Since the original plan was formulated, the company’s revenue has grown substantially, making this an ambitious target without any extra efforts. Recognizing that operational improvements alone are insufficient, the company has engaged with its research and development division to explore opportunities for emission reduction at the product material development stage.

NextGen visited the R&D center and discussed how the company could achieve their target.

While a system for measuring GHG emissions at the product level has already been established, current initiatives are not yet being effectively communicated to consumers—specifically, how their customers can contribute through purchasing the company’s products.

We have recommended that the company strengthen marketing efforts—particularly those that include consumer education—to translate its sustainability efforts into competitive advantage and market share expansion.

ESG Equity Story (Our hypothesis)

1.Medium- and long-term financial indicators/value drivers

- Aiming to achieve the industry’s #1 profitability and growth in the global market. Aim to achieve operating income of 130 billion yen or more, operating margin of 17% or more, and ROA of around 15% in its mid-term management plan through FY12/26.
- The company's plan is achievable, and we expect to see more growth. The stock price is undervalued relative to the medium-term growth rate of global peers.
- The company is expanding its share of the global market by strengthening its development and marketing capabilities in order to develop a product strategy that focuses on its strengths.

2.Pillars of mid- to long-term strategy to realize 1. above

- Focus to improve athlete performance, which expand brand value.
 - Strengthen development capabilities
 - Strengthen global marketing
 - Strengthen digital marketing
 - Human Resource Education to Support Global Strategies
- Thorough and efficient operations by strong leadership.
 - Cost-competitive production in Asia
 - Thorough inventory control throughout the supply chain
- Thorough sustainability management in the apparel industry.
 - Promote sustainability throughout the supply chain
 - Establishment of a recycling-oriented business model
 - Compliance with regulations under global standards
 - Improved accessibility, especially in Asian markets, where production is based

3.Strategic ESG issues based on mid- and long-term strategies

- **E: Balancing Sales Growth and Carbon Neutral Goals**
 - Aiming net zero CO2 emissions under Scope 1, 2, and 3 by FY2050.
 - The scale of sales has expanded significantly. Products and production methods aimed at reducing emissions are pursued from the material development stage.
 - A system for measuring GHG emissions at the product level has been established. Marketing efforts to connect this efforts to increase market share, including educational activities.
- **E: Establishment of a recycling-oriented business model**
 - Continue to increase the percentage of recycled polyester materials used in footwear.
 - Promote activities to enhance used product collection programs and consumer recycling awareness to reuse or recycle products and materials.
 - Form communities around its products through digital marketing. In the process, encourage participation in a circular business model.
- **S: Fair and transparent supply chain management**
 - Ensure respect for human rights throughout the supply chain.
 - Thorough production management and information sharing to suppliers to become better buyers. Prompt and appropriate sharing of production information will ultimately lead to economic stability for factory workers.
 - Promote sustainable management throughout supply chain. Such an attitude is especially appreciated by the new generation of consumers.
 - Supporting suppliers' own autonomous sustainability management.
 - Cultivate markets by improving accessibility in Asian markets where its production is based
- **S: Human capital investment**
 - Improve the management capacity of the head office while investing in human resources training to cope with further localization of development, marketing, sustainability promotion.
- **G: Strengthen governance structure as a global company**
 - Continue to strengthen governance as a global company capable of withstanding rapid growth over the last few years.
 - Strengthen communication with stakeholders. In particular, integrated information of financial and sustainability.
 - Increase transparency in the management of the foundation established to help improve accessibility.

Outcomes and Ongoing Efforts

The company has made steady progress in its sustainability management, addressing environmental and social issues.

Moving forward, NextGen aims to deepen our engagement regarding human capital development—such as the development and evaluation systems for employees, who play a crucial role in driving business targets.

Over the past few years, the company has made significant strides in its growth journey. To further accelerate the company’s progress as a global company, it is imperative that they continue to strengthen their internal framework.

This is particularly critical in key areas that drive its competitive advantage— product development, marketing, and supply chain management.

To achieve this, the company must invest in the development of talent to manage these functions on a global scale, and also present and implement clear strategies for external talent acquisition.

Since NextGen invested in the company, we have emphasized that improving accessibility to the company’s products and to sports represents a long-term opportunity for market expansion. NextGen will continue to support and monitor these efforts closely.

Through these ongoing dialogues, we are committed to contributing to the company’s sustainable growth and positioning it as a global industry leader.

2

Regional Bank

Company Overview

Since its founding, the bank has provided community-based financial services. In recent years, it has expanded beyond its local area by opening branches in other regions and actively offering loans to both individuals and corporations. In addition to its lending business, the bank has also been focusing on service-oriented businesses, such as consulting services for corporations, thereby broadening the scope of its service offerings.

We invest in the bank based on its potential as a regional financial institution capable of delivering stable shareholder returns driven by rising interest income, its growth prospects through expansion into other prefectures and the strengthening of consulting services, and its efforts to enhance corporate value through ESG initiatives, including human capital investment and governance reforms.

Strategic ESG Engagement

We have engaged continuously with the bank, focusing on key ESG themes such as understanding, reducing, and disclosing GHG emissions (particularly Scope 3), human capital management and disclosure, and gender equality.

Recommendations for Scope 3 GHG Emissions Measurement and Reduction

We introduced the bank’s senior executives in sustainability and corporate planning—including the president—to advanced initiatives by European banks. Specifically, we shared examples of smaller banks that have set clear reduction targets for emissions from their loan and investment portfolios (Scope 3). While there were concerns that such disclosures are difficult in Japan, we highlighted European trends and suggested that similar measures would eventually be expected in Japan. We also proposed specific processes for setting such targets. The bank is also expanding its consulting services and has begun discussions on supporting clients in reducing their GHG emissions.

Discussions and Proposals on Gender Equality

We shared case studies of leading companies and explained our current activities centered around female outside directors, as well as on-the-ground challenges. This served as a basis for a mutual exchange of opinions.

Outcomes and Ongoing Efforts

Following our engagement, the bank’s board of directors acknowledged the challenges of GHG emission reductions for loan clients. The latest sustainability report includes the calculation of Scope 3 Category 15 (financed emissions), and the bank has clearly set a target of achieving carbon neutrality by 2050, including Scope 3 emissions. The importance of supporting clients in reducing their GHG emissions has also been recognized, and the introduction of consulting services to assist with SDG strategy development and CO₂ reduction is under consideration.

Additionally, efforts to promote gender equality have been strengthened. Initiatives include the internal appointment of female directors, the establishment of a women's empowerment promotion team, enhanced support for childcare leave, and the encouragement of paternity leave. These measures aim to improve workplace diversity and work-life balance.

It is also noteworthy that, compared to the time of the fund's establishment, the bank’s stock price and its weight within the portfolio have increased (refer to the following page for further information). Going forward, we plan to continue our support through engagement focused on themes such as GHG emissions measurement, reduction, and disclosure (particularly Scope 3), as well as gender equality.

1

Analysis Based on Questionnaire

To better understand how portfolio companies evaluate our strategic ESG initiatives and continuous engagement aimed at enhancing corporate value, and to further improve the quality of our engagement, we conducted a survey to our portfolio companies. Portfolio companies were asked to rate their experience from two perspectives: "Evaluation of Overall Engagement" and "Evaluation of Contribution to Enhancing Corporate Value" on a five-point scale. The responses received were highly positive, which has further reinforced our confidence in our engagement approach.

Evaluation of Overall Engagement

Portfolio companies gave high ratings overall, with more than 90% of responses rating engagement as “5” or “4” on the five-point scale. Many companies specifically highlighted the value of our concrete proposals based on a deep understanding of their initiatives, sharing of global best practices, and insight into capital market expectations.

Chemical Manufacturer

“Your analysis of our initiatives was thorough and clearly compared with market expectations, making it very easy to understand. It’s also been highly educational for us in IR.”

Real Estate Company

“Thank you for your consistent, clear identification of key issues, and for sharing domestic and global trends and peer best practices. We greatly appreciate your engagement, which clearly reflects a strong understanding of our efforts.”

Electronics Manufacturer

“Regarding human capital disclosures, the suggestions based on other companies’ examples were extremely helpful in guiding our internal discussions and future improvements.”

Evaluation of Contribution to Enhancing Corporate Value

From the perspective of enhancing corporate value, engagement was also rated highly, with more than 80% of responses falling into the “5” or “4” categories. Numerous comments reflected the view that our engagement has contributed to corporate value enhancement and improved market understanding and evaluation.

Electronics Manufacturer

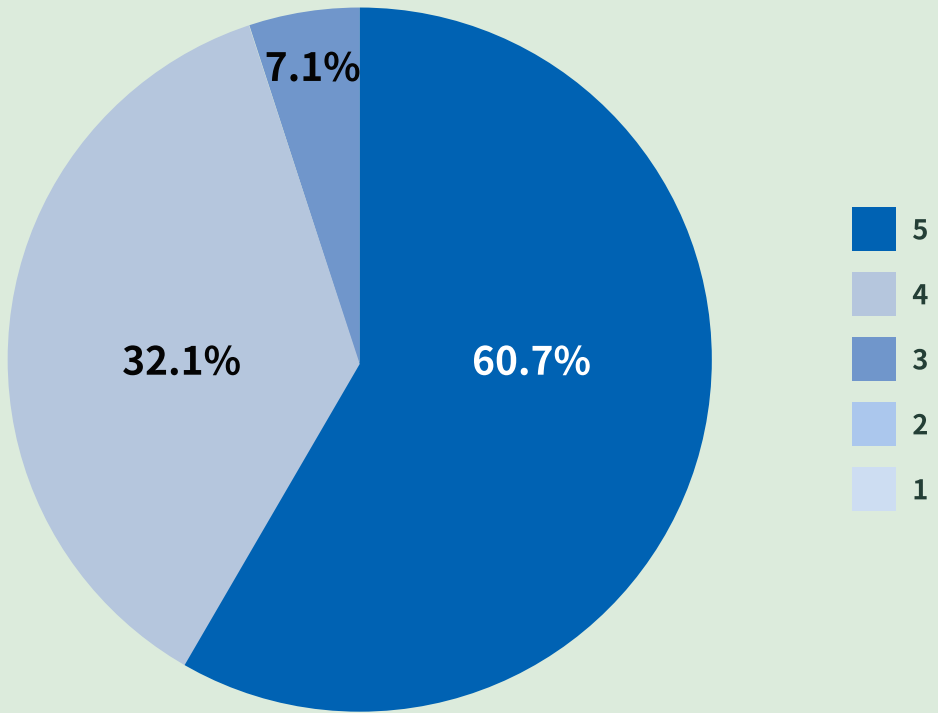
“The advice we received helped advance our internal discussions and considerations as we improved disclosures, which in turn has led to more substantial initiatives. I feel this has directly contributed to increasing our corporate value.”

Aluminum Manufacturer

“We actively utilize the insights gained from our meetings with your team to reflect on and incorporate the perspectives expected by the market. Learning about other companies' practices has also been extremely educational.”

Evaluation of Overall Engagement

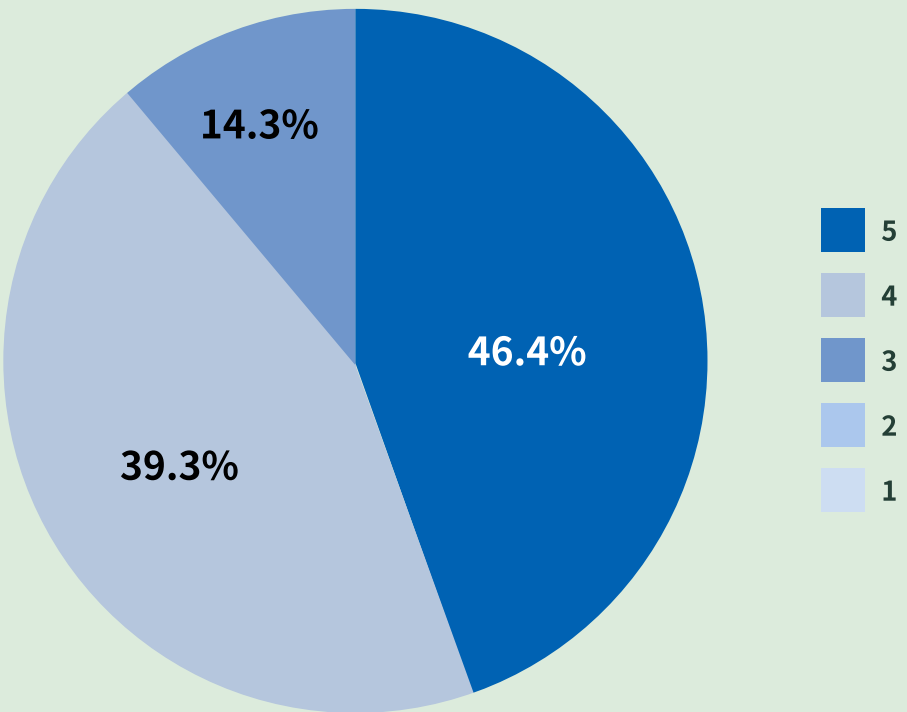
Has the engagement by our fund been helpful to your company as a whole?



*1 Evaluation is based on a 5-point scale: 5 (Very helpful) to 1 (Not helpful at all)
*2 Number of valid responses: 28 (including responses from multiple departments)

Evaluation of Contribution to Enhancing Corporate Value

Has the engagement with our fund contributed to enhancing your company's corporate value?



*1 Evaluation is based on a 5-point scale: 5 (Strongly contributes) to 1 (Does not contribute at all)
*2 Number of valid responses: 28 (including responses from multiple departments)

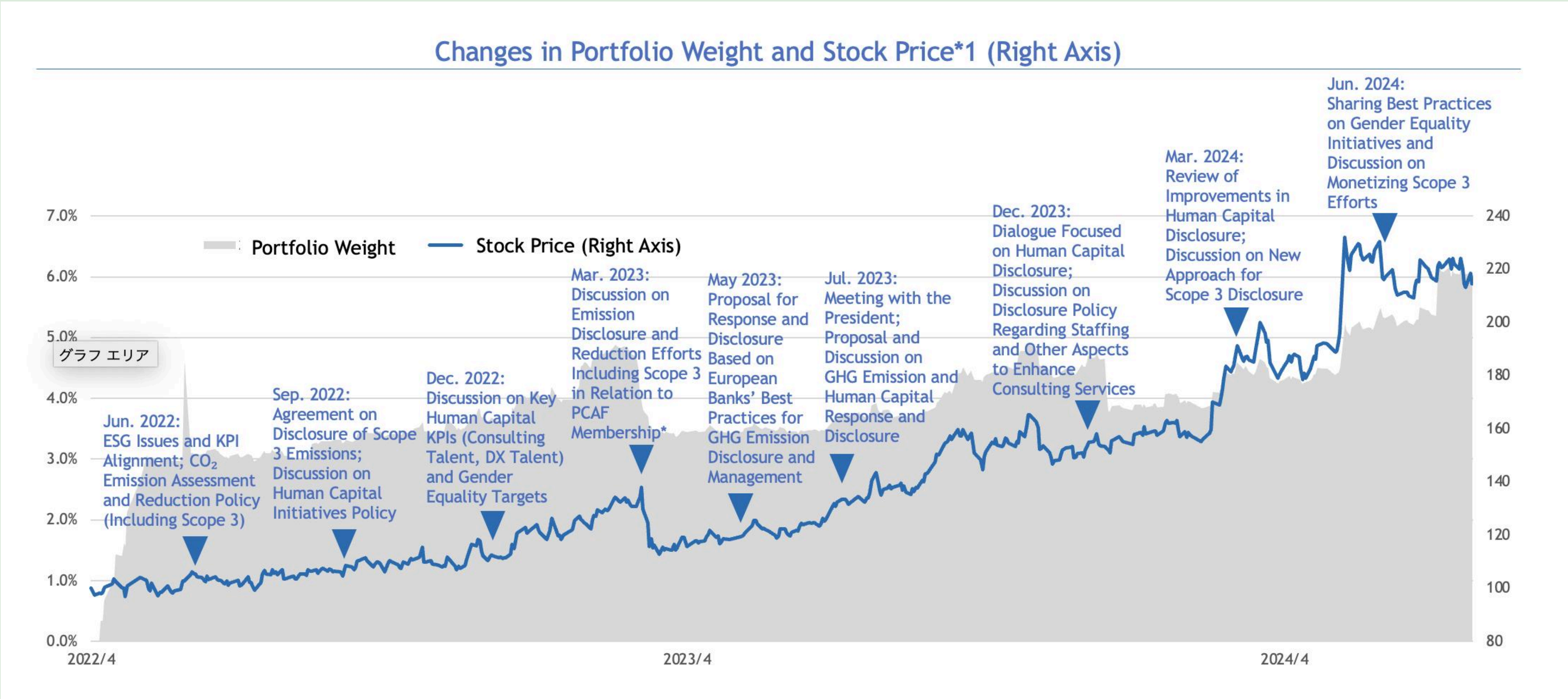
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GOLD Rating from BlueMark

The NextGen ESG Japan has received a GOLD rating from BlueMark, a U.S.-based global independent verifier of impact funds. Specifically, the fund was rated “High” or above in all four categories: Impact Strategy, Impact Governance, Impact Management, and Impact Reporting—with the highest rating of “Advanced” awarded in the Reporting category. Notably, as a public equity fund, it is the first fund in Asia to be recognized by BlueMark as an impact fund.



Historical Changes in Portfolio Weight, Stock Price, and Engagement Themes Since Fund Inception



A red poppy flower is in sharp focus in the center of the frame, surrounded by a field of tall, golden-brown grass. The background is a soft, warm glow from a low sun, creating a bokeh effect with vertical light streaks. The overall mood is serene and natural.

Testimonials

– Analysis Based on Questionnaire & GOLD Rating from BlueMark



NextGen ESG Japan Annual Report 2025

Investment Manager: dLab Asset Management Limited <https://www.dlab-am.com/>

Investment Advisor: SDG Impact Japan Inc. <https://sdgimpactjapan.com/>,
Asuka Corporate Advisory Co., Ltd. <https://jp.asuka-advisory.com/en/>

For more information, please contact us at <https://sdgimpactjapan.com/contact/>

This annual report for NextGen ESG Japan has meticulously outlined our fund’s strategic focus on ESG engagement, demonstrating a profound commitment to sustainability and positive impact across our portfolio companies. From our foundational concept and strategy to our rigorous sustainability KPIs showcasing progress in critical areas such as GHG emission reductions, human capital development, and gender equality, we have detailed our proactive approach and tangible outcomes.

Through deep dives into GHG emission reductions and the pressing ESG issues in Japan, we’ve highlighted the strategic engagements that drive both environmental stewardship and social responsibility. Our engagement case with a leading semiconductor manufacturer exemplifies our methodical approach to fostering sustainable growth and resilience in the face of global challenges.

The testimonials from our portfolio companies further underscore the value and impact of our engagements, reflecting the mutual benefits of our collaborative efforts.

This annual report demonstrates our unwavering dedication to leveraging ESG integration as a catalyst for sustainable investment, aligning financial returns with the broader goal of achieving a sustainable and equitable future for all. Through strategic engagement, targeted feedback, and a commitment to continuous improvement, we not only navigate the complexities of the modern financial landscape but actively contribute to shaping a more sustainable world, offering our investors the opportunity to be part of this vital journey towards responsible capitalism.

SDG
Impact Japan



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