

COMMONS
IMPACT
FUND
ANNUAL REPORT



Commons Impact Fund
Co-Creation

2023-2024 Annual Report

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Creating a society where listed companies create impact as the standard

Impact investing, which targets listed shares, is not yet a global standard. The Commons Impact Fund, launched in 2022, is working to improve corporate value through impact creation with the co-creation of three companies. We will continue to pursue solutions to essential social issues to contribute to the expansion of the entire impact economy.

MESSAGE

from representatives and managers of the 3 companies

**Through investment and financing,
we aim to improve mid- to long-
term economic returns and bring
about systemic change that
structurally resolves social issues.**

Japan Post Insurance Co.,Ltd.
Senior Managing Executive Officer

Takayuki
Haruna



"Through investment and financing, we want to improve medium- to long-term economic returns and bring about system change that structurally resolves social issues." This is why we at Japan Post Insurance are promoting impact investing.

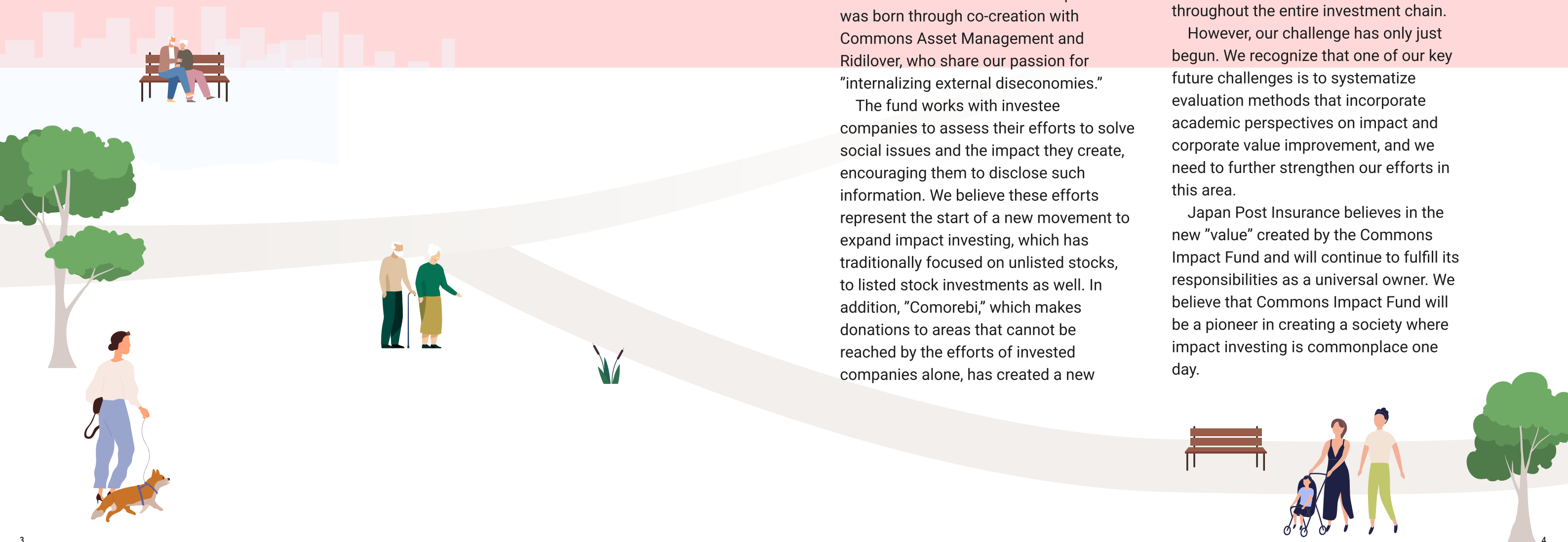
Japan Post Insurance launched its own investment framework, the "Impact K Project", in 2022, and is taking the lead in the financial industry in expanding impact investing and financing aimed at solving social issues. The Commons Impact Fund was born through co-creation with Commons Asset Management and Ridilover, who share our passion for "internalizing external diseconomies."

The fund works with investee companies to assess their efforts to solve social issues and the impact they create, encouraging them to disclose such information. We believe these efforts represent the start of a new movement to expand impact investing, which has traditionally focused on unlisted stocks, to listed stock investments as well. In addition, "Comorebi," which makes donations to areas that cannot be reached by the efforts of invested companies alone, has created a new

trend toward solving social issues throughout the entire investment chain.

However, our challenge has only just begun. We recognize that one of our key future challenges is to systematize evaluation methods that incorporate academic perspectives on impact and corporate value improvement, and we need to further strengthen our efforts in this area.

Japan Post Insurance believes in the new "value" created by the Commons Impact Fund and will continue to fulfill its responsibilities as a universal owner. We believe that Commons Impact Fund will be a pioneer in creating a society where impact investing is commonplace one day.



We are entering an era in which 'problem solving' will become a new metric of evaluation in capitalism.

Commons Asset Management Inc.
President & Representative director

Tetsuro
Ii

Commons Asset Management aims to "create a better, more sustainable society for our children's future." "with a good investment for yourself and for society." This marks the 16th year since we began operating our long-term investment fund with a 30-year horizon, alongside Commons SEEDCap, a social entrepreneur support program that donates a portion of the fund's income.

Long-term investments with a 30-year perspective inherently include an ESG/ impact focus, and Commons SEEDCap has been addressing social issues by supporting numerous social entrepreneurs. Over the years, we have gained insights into the kind of impact society expects from companies and the level of sustainability required from those that put these values into practice.

The Commons Impact Fund - Co-Creation - has taken our efforts to the next level. Japan Post Insurance, the asset owner, clarifies the kind of society it wants to realize, and then, as an asset manager, we select investment targets based on that vision, and engage with companies and evaluate their impact in



collaboration with Ridilover, which is well-versed in social issues. This scheme and concept are cutting-edge on a global level.

The response from companies has been strong, with companies starting to set KPIs for non-financial information in medium-term management plans and integrated reports, and deploying them in logic models. The investment chain, which begins with asset owners, is now firmly advancing toward the resolution of social issues. We are moving into an era where 'problem solving' becomes a key measure of success in capitalism.

The Commons Impact Fund embodies the ideal economic society.

Ridilover Inc.
Representative Director

Toshiki
Abe

Since our founding in 2009, we at Ridilover have been committed to "breaking down social indifference" and have been working to implement an ecosystem that will enable sustainable activities to solve social issues.

In particular, over the past few years, we have felt a growing momentum to incorporate solutions to social issues into existing economic mechanisms and internalize external diseconomies that have been overlooked until now. What will be important going forward is to attract more interest and funding, elevate it into the mainstream of the economy, and pursue real solutions to social issues rather than merely a superficial "impact washing" effort.

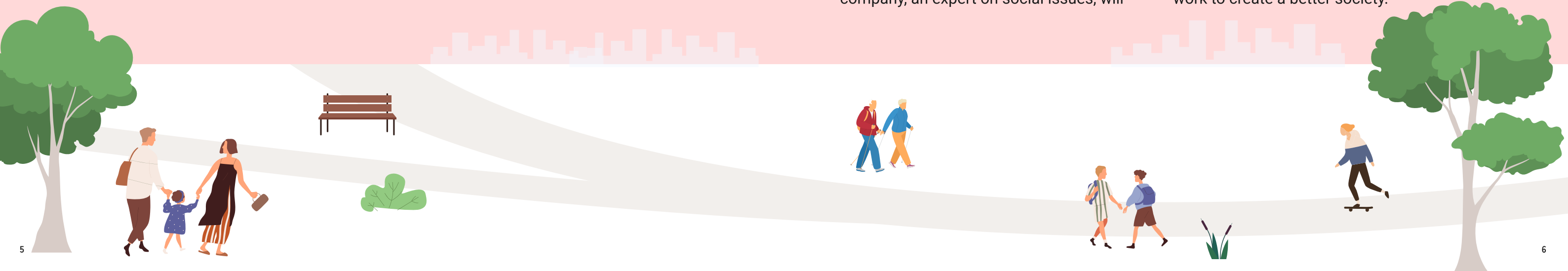
We believe that the Commons Impact Fund framework represents a key initiative in this regard. Japan Post Insurance, which has one of the largest assets in Japan, envisions an ideal society, and Commons Asset Management, a pioneer in long-term investment that emphasizes non-financial information, will manage the funds to realize this ideal society. Furthermore, our company, an expert on social issues, will



evaluate the impact created, thereby embodying a new form of economic society.

Over the past two years, we have engaged in extensive dialogue with our investee companies and have been working to make their impact more visible using our original methodology." Many companies have the potential to provide fundamental solutions to social issues, and we believe there is value in being an impact fund that targets listed companies.

Our challenge has only just begun. Now in its third year, we will continue to deepen our impact-based dialogue and work to create a better society.





HOPE TO REFORM CAPITALISM

by mainstreaming impact investing

PART 01

Impact Investing

Expansion of Impact Investing

In modern society, the population is declining and aging, and as social issues become more diverse and complex, the number of people who can take action to address them is decreasing.

There is a need for more sustainable capital inflows to address social issues and for value co-creation across the financial, corporate, government, and social sectors.

Impact investing is a means of updating the current capitalist system through the common language of “impact.”

What is Impact Investing?

Impact investing refers to investment that aim to create positive and measurable social and environmental change or impact alongside financial returns. Traditionally, investments have been evaluated based on two dimensions:

“risk” and “return”. In contrast, impact investing introduces a third dimension: “impact,” which refers to the social and environmental changes and effects that result from an investment.

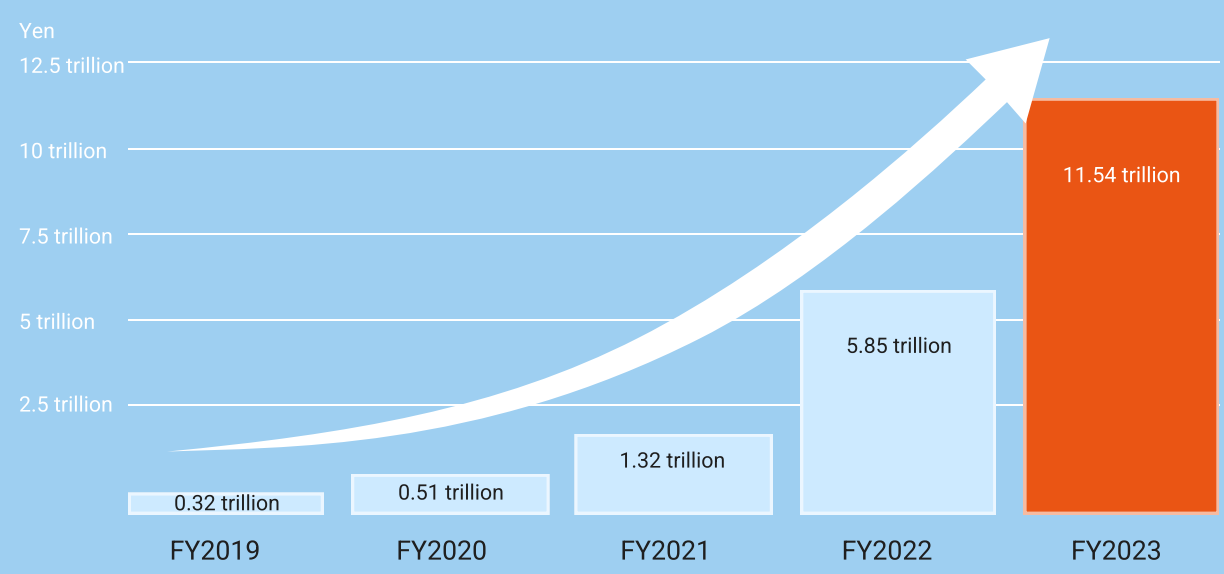
Four key elements to impact investing

- (1) Intentionality
- (2) Financial Returns
- (3) Range of asset classes
- (4) Impact Measurement

GSG IMPACT JAPAN

Impact investing has been pioneered in western countries, but in recent years it has been gaining traction in Japan as well. According to a survey by the National Advisory Board of the Global Steering Group for Impact Investment, the total amount of impact investments in Japan is rapidly increasing, from 1.32 trillion yen in fiscal 2021 to 5.85 trillion

yen in fiscal 2022 and 11.54 trillion yen in fiscal 2023. Additionally, the government has been actively leading the expansion of impact investing, with the Financial Services Agency establishing the Impact Consortium, a public-private initiative on impact investing, which is a unique feature in Japan's impact investing landscape.



Differences from ESG investing

One investment method that is easily confused with impact investing is ESG investing, which takes into account non-financial information such as consideration for the environment,

society, and governance, as well as risk mitigation. There are three differences between impact investing and ESG investing:

Impact Investing		ESG Investing
Direct outcomes resulting from business activities Evaluate the social and environmental changes that are the result of business activities	Evaluation target	Factors not directly related to business activities Evaluate internal company indicators such as gender equality in the workplace and compliance with laws and regulations.
Positive screening Select and invest in companies that have a positive impact on the environment and society	Main evaluation stance	Negative screening Divest companies that engage in unethical practices or practices that lead to environmental destruction from investment targets
Predictive Evaluate the value of social and environmental change in advance, then make investment decisions and review later whether the intended results were achieved	Evaluation method	Retrospective Review past efforts and achievements to evaluate whether they were valuable and reflect this in investment activities

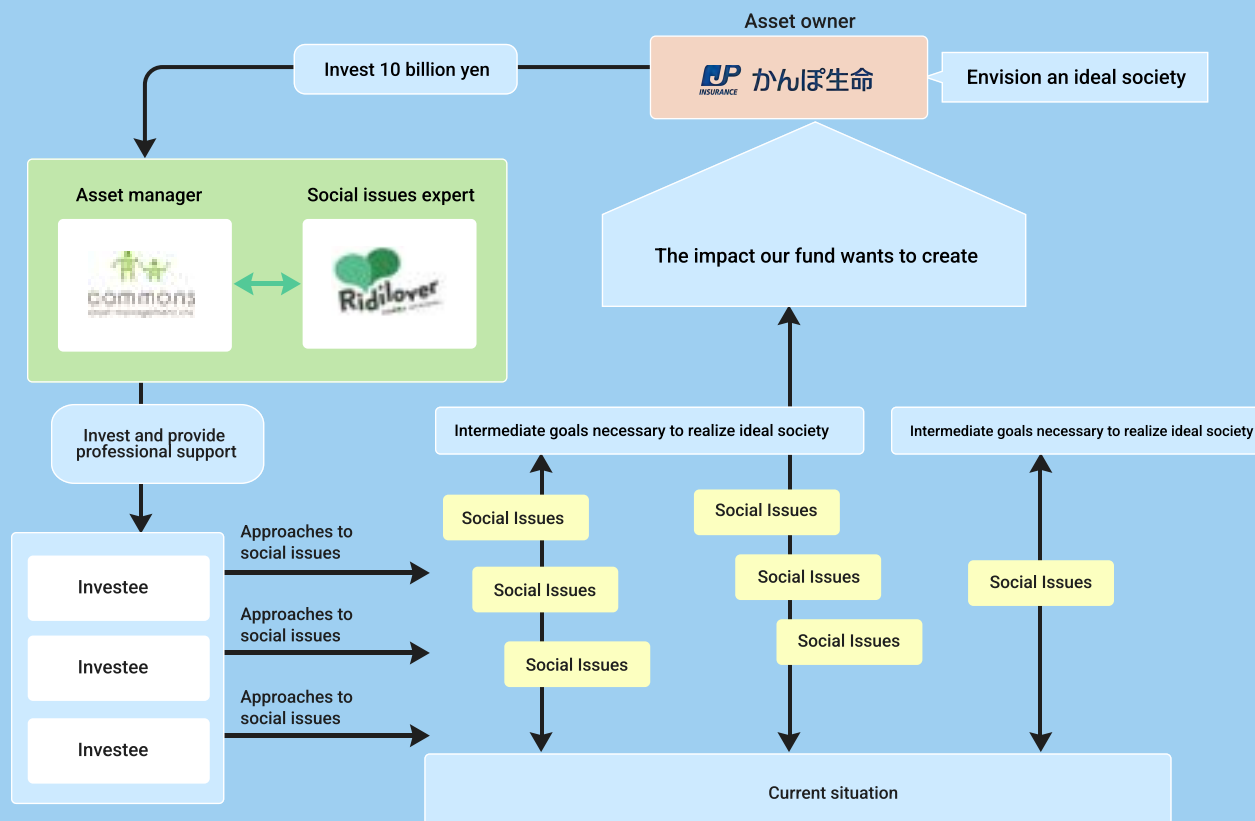
Both methods internalize previously overlooked external diseconomies in capital markets. Among these, impact investing is considered as post-ESG investing. This is because ESG investment is driven by investors, while impact investment places the initiative on companies. In ESG investing, investors require companies to disclose non-financial information about their consideration for the environment and laws and regulations based on set standards. As a result, companies were often passive and had to disclose

information that was not directly related to their business activities.
 On the other hand, with impact investing, it is important for companies to disclose their intentions for solving social issues and the impact they hope to create based on their purpose and philosophy. Additionally, they aim to involve investors and society through dialogue. This makes it easier to demonstrate the connection between each company's unique initiatives and the improvement of corporate value.

Commons Impact Fund's scheme

Funds flow based on the clear intent of asset owner

We will introduce the scheme and features of this fund, which embodies a new approach to finance by selecting investment targets and evaluating their impact in order to realize the ideal society envisioned by asset owners.



The Commons Impact Fund is a long-term investment by Commons Asset Management Co., Ltd. in domestic listed companies. These companies are working to create positive impacts to realize the Theory of Change, which is based on the ideal society envisioned by the asset owner, Japan Post Insurance Co., Ltd.. The investment targets range from large-cap to small-cap stocks. Investments are made in a carefully selected 20 to 50 stocks that are expected to contribute to improving

corporate value. Commons Asset Management has also formed a business partnership with Ridilover Inc., an expert on social issues, to measure and manage the impact created by its investee companies. In addition to Commons Asset Management and Ridilover, the asset owner, Japan Post Insurance, participates in engagement by joining dialogues with companies. These schemes form a framework for working to solve social issues across the entire investment chain.

Characteristics of the Commons Impact Fund

Investing based on the ideal society defined by the asset owner 01

As an asset owner, Japan Post Insurance has established its Theory of Change (ToC) as a policy to make investments that reflect the warmth characteristic of Japan Post Insurance, based on the three themes that the company values: "enhancement of well-being," "development of local communities and society," and "contribution to environmental protection."

Targeting domestic listed companies 02

Currently, most impact investments target unlisted companies. However, this fund focuses on domestic listed stocks to contribute to the further expansion of impact investments in the listed market which serves as an exit point for unlisted companies.

Implementing a donation program for non-profit organizations 03

Approximately 1% of the trustee fees Commons Asset Management receives is donated to organizations that work to solve issues that are difficult to address through the efforts of invested companies alone, as balancing social issues with profit can be challenging. The recipients of the donations will be determined through a vote by employees of Commons Asset Management and Japan Post Insurance, as well as a selection committee consisting of external experts.



investing aligned with
ASSET OWNER'S VISION

The fund invests based on the three themes that are important to the asset owner, Japan Post Insurance: "Enhancement of well-being," "Development of local communities and society," and "Contribution to environmental protection". It is guided by the Theory of Change (ToC), which defines the issues the fund will work to solve in order to realize an ideal society.

This ToC embodies Japan Post Insurance's management philosophy. The company has been engaged in the life insurance business for over 100 years,

dating back to its predecessor, the postal life insurance business. Currently, we have over 19 million customers, which is approximately one-sixth of the total population of Japan. Our management philosophy is: "Be a trustful partner for people, always being close at hand and endeavoring to protect their well-being". That is why improving the well-being of the nation, including its health, is the issue that must be addressed first and foremost. In today's Japan, while the average life expectancy and healthy life expectancy are increasing, the number of

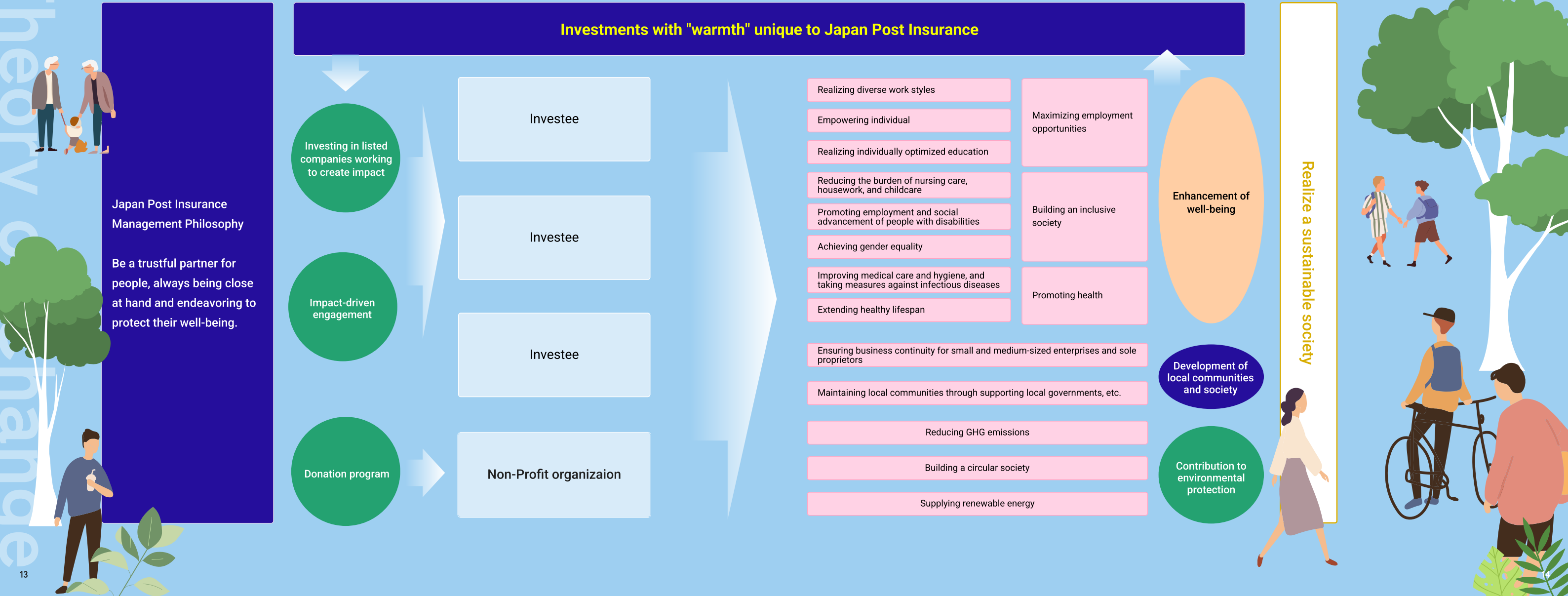
people suffering from lifestyle-related diseases is on the rise and new health issues such as mental health are emerging.

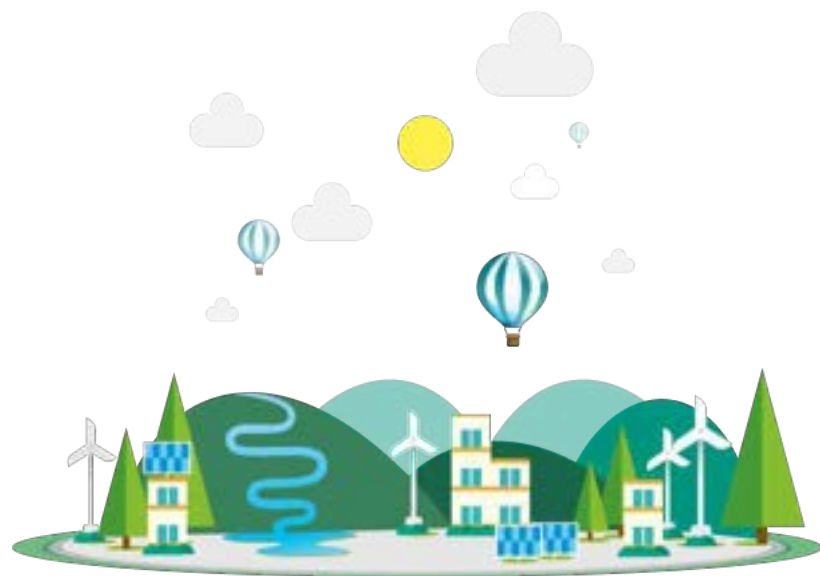
In addition, rural areas are also experiencing aging and depopulation. As a postal service that has been deeply rooted in local communities through a nationwide network of over 20,000 post offices, regional and social development" is another critical issue. Furthermore, as the impact of climate change and natural disasters caused by global warming grows not only in Japan but also around

the world, the company must also work to "contribute to environmental protection" in order to safeguard the lives of its customers and all other stakeholders.

Against this background, we have set out 13 groups of social issues based on three themes. We then promote the creation of impact by investing in and engaging with portfolio companies that are working to solve these issues. Through these efforts, we will realize Investments with "warmth" unique to Japan Post Insurance.

Theory of Change (ToC)





COLUMN #1 OUR VISION

to pursue impact investing in listed equities

Contributing to the expansion of the impact economy through listed equity impact funds

The need for greater impact investing in the public market

Why do we run a fund targeting listed companies instead of private companies that many impact investors focus on? We will summarize the current landscape of companies creating impact and the various players involved, and explain the significance of impact investment targeting listed companies.

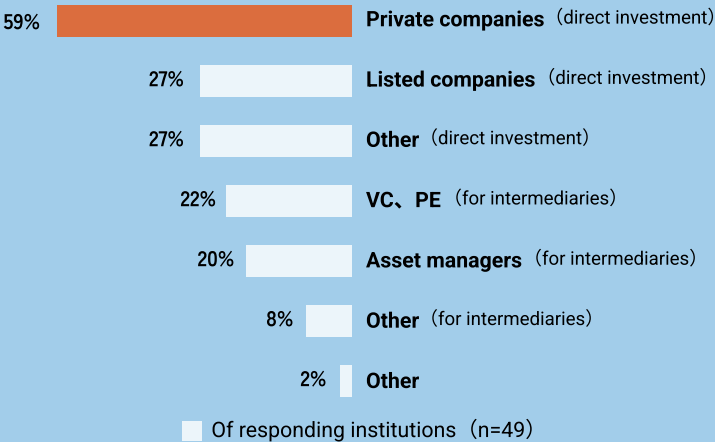
Expanding support for Impact-Startups

In recent years, there has been an increase in support for impact startups that aim to solve social issues, realize new visions, and achieve sustainable economic growth. In terms of policy support, following 2023, a comprehensive support policy has been incorporated into the "2024 Revised Edition of the Grand Design and Implementation Plan for New Capitalism." Specific measures include creating impact investment projects, considering a certification system (J-Startup Impact), and matching with local governments.

In addition, financial support is becoming more widespread in the private sector, and impact investments in impact startups by venture capital firms (VCs), major financial institutions, and life insurance companies are expanding rapidly. According to "Current Status and Challenges of Impact Investment in Japan - 2023 Survey" (GSG National Advisory Committee), the balance of impact investments in Japan is estimated at 11.5414 trillion yen, approximately double the previous year, and approximately 60% of the responding institutions are investing in private companies, including impact startups.

Impact investees by organization type

(『The Current State and Challenges of Impact Investing in Japan』)



Tripartite efforts necessary to realize the "Impact Economy"

The reason behind the growing support for impact startups is the recognition that realizing an impact economy that incorporates mechanisms for solving social issues is important for sustainable economic growth. In order to realize the impact economy, in addition to nurturing players who can balance solving social issues with economic growth, it is also necessary to simultaneously work on building a financial ecosystem to support these players and designing real economic incentives for them. This is

A three-pronged approach to realizing the

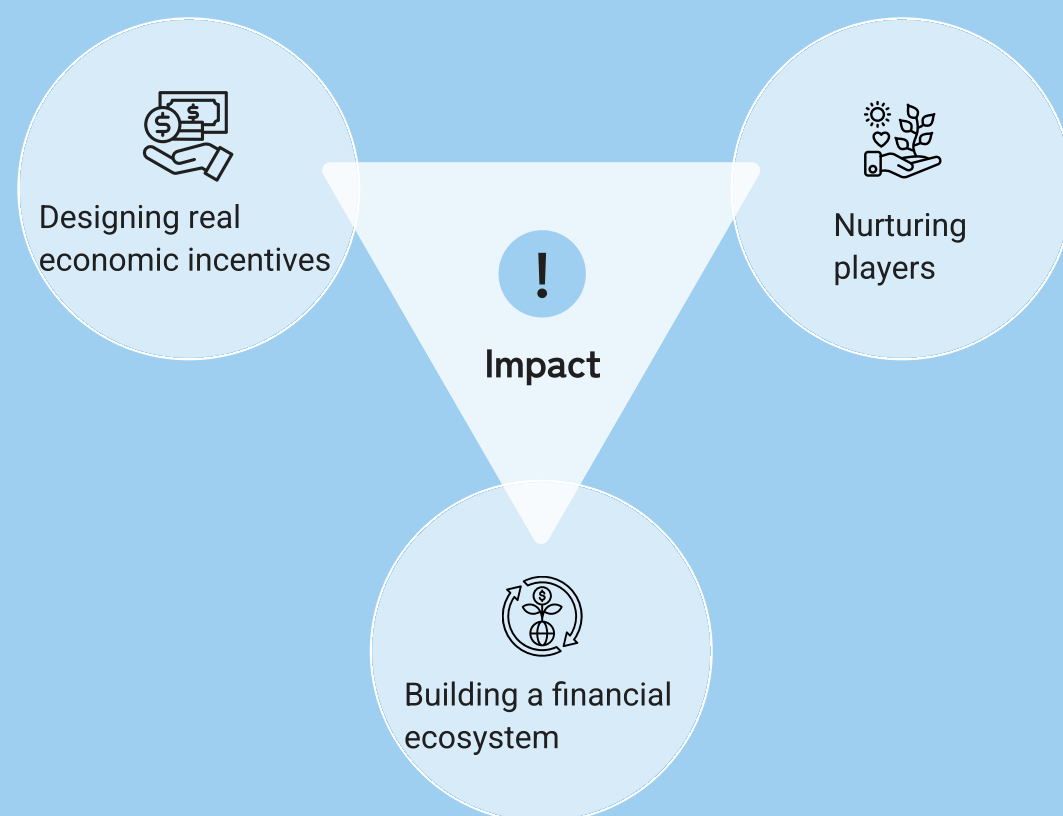
"IMPACT ECONOMY"

because, in order to increase the number of people working to solve social issues that are becoming increasingly diverse and complex, a system is needed to evaluate the impact created by their efforts and support these people based on that evaluation.

Generating short-term profits can be challenging for them, and those addressing complex social issues are often not evaluated based solely on economic indicators. This makes it

difficult to expand or continue the business. To prevent such a situation, it is necessary to work in an integrated manner to develop those who will take on the challenge, while also building a financial ecosystem that provides funding to businesses whose impact has been evaluated, and to design real economic incentives, such as promoting procurement from public institutions, including local governments.

Tripartite efforts necessary to realize the “Impact Economy”



Building an impact-driven financial ecosystem in the public market is key to expanding the impact economy

The three-pronged approach to realizing the impact economy is expanding in the private market, including support for impact startups. However, little progress has been made in the public market, which is one of the exit routes for many impact startups. This discrepancy between efforts in the listed and unlisted markets, especially in building financial ecosystems, could negatively impact the overall impact economy, including the unlisted market, by constricting it.

Investments in unlisted companies by VCs and other entities, not limited to impact investments, serve as a model that aims for significant capital gains by acquiring shares in startups before they go public and selling them once the startup is listed. In the private market, where impact investment is currently on the rise, the valuations of impact startups and other companies are relatively high, leading impact investors to buy stocks at high prices. However, impact investing in the public market remains minimal, and there is no premium on the share prices of listed companies committed to creating impact. As a result, impact investors targeting unlisted companies end up buying shares in impact startups at a high price and selling them at a low price when or after they go public. This also diminishes the capital gains realized from selling the stocks they hold.

Due to this disparity between impact investing in the public and private markets, impact investors in the private market will decrease, and impact startups and other organizations that have been supported by them may find it difficult to

continue their operations. And ultimately, the impact economy as a whole will fizzle out. To prevent such a scenario, we need to increase impact investing in the public market and build a financial ecosystem.

Asset owners play key role in growing impact investing in the public market

Asset owners who provide capital play an important role in increasing impact investing in the public market. Asset owners need to clearly explain to the asset managers who manage their funds what kind of society they want to create. This is because asset managers manage funds to realize the ideal society and investment strategy defined by the asset owner.

Among asset owners, it is particularly important for universal owners, who are long-term investors with huge assets and who diversify their investments across a wide range of assets and securities, to engage in impact investing. This is because, in order to achieve stable profits over the long term, it is essential not only that the value of the individual companies in which we invest increases over the long term, but also that the capital market as a whole experiences sustainable and stable growth, and that society is stable and peaceful. In addition, from the perspective of companies working to solve social

issues, it takes time to build a business that combines impact and profit, therefore, impact investors with a long-term perspective are necessary.

In fact, Japan Post Insurance, the asset owner of this fund, which is a universal owner managing a wide range of assets over the long term, also has three themes for impact investment: "Enhancement of well-being", "Development of local communities and society," and "Contribution to environmental protection". Our fund selects investment targets that are working to create impact that fit these themes and engages with them from a long-term perspective.

Impact disclosure required for listed companies and its benefits

In order to promote impact investment in the listed market, it is essential that listed companies themselves shift to impact-driven management and proactively

disclose their impact. This is because, in impact investing, companies should disclose their efforts to address social issues, the impact created, and engage in dialogue.

Furthermore, impact initiatives by listed companies will not only contribute to the realization of the impact economy, but also lead to the growth of the companies themselves. For example, if a company is successful in raising funds from impact investors through impact disclosure and dialogue, it will achieve a premium stock price. As a result, it will become easier not only to consider short-term fluctuations and pursue shareholder interests but also to develop strategies and new businesses that balance social and business viability long-term.

In addition, it will make corporate mergers and acquisitions (hereinafter referred to as M&A) easier. When stock prices are at a premium, the cost of

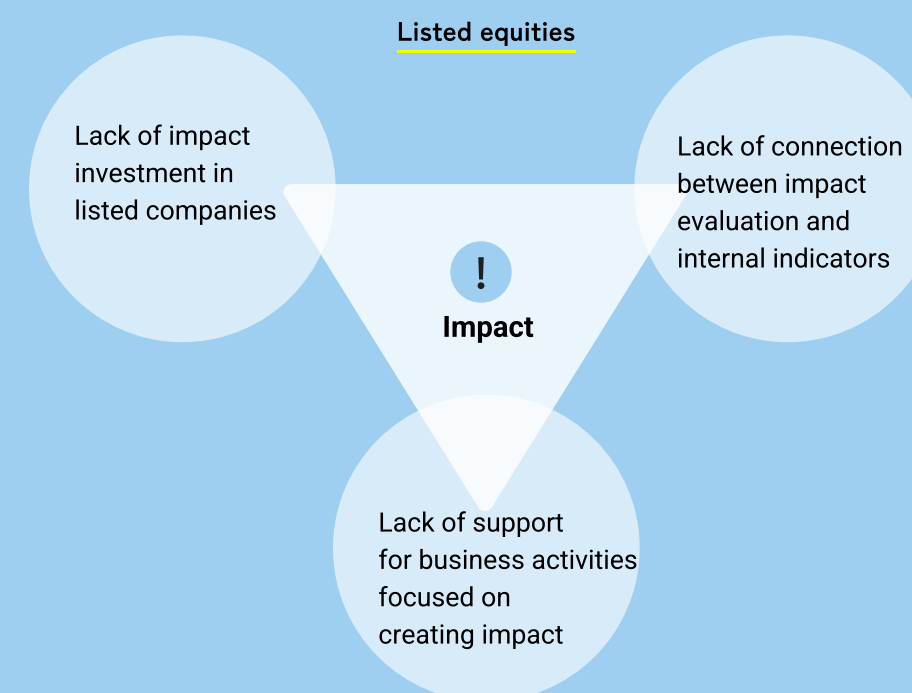
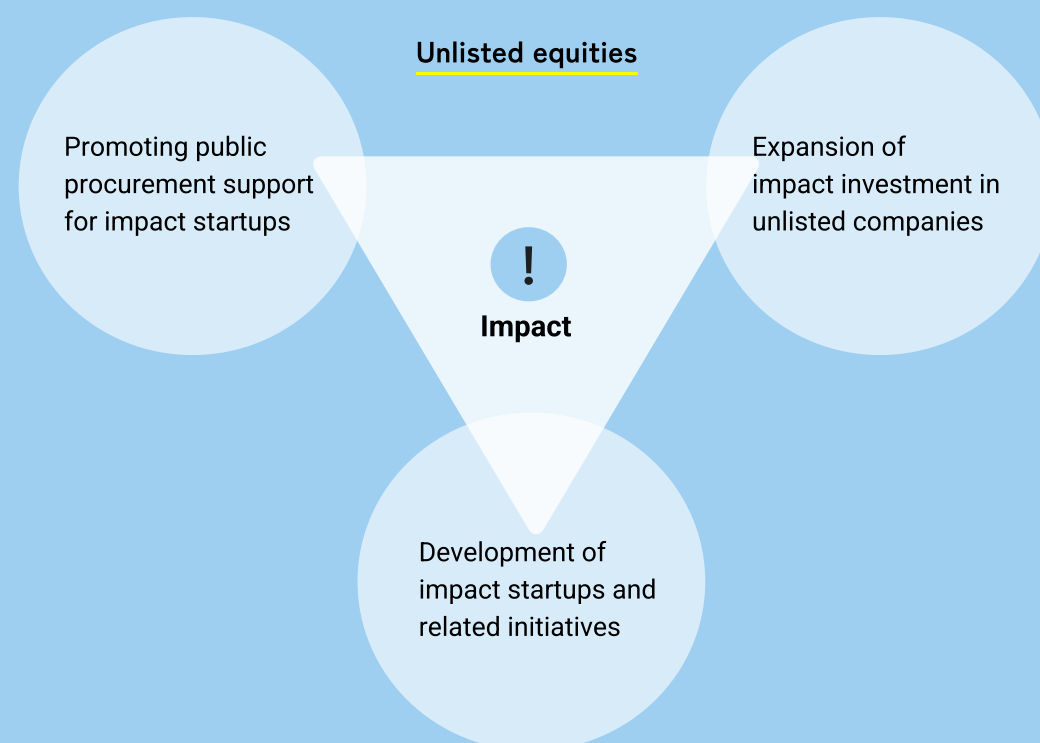
raising funds required for M&A can be reduced. In addition, for the companies that are targets of acquisition, having an impact goal rather than just financial indicators makes it easier for them to recognize the significance of joining the group and align with their aspirations.

The need to expand efforts to expand the impact economy at the exit point of the listed market

In this way, establishing a system that generates a premium for companies engaging in impact investment in the listed market is essential to prevent shrinking the entire impact economy, including the unlisted market. In order to increase impact investments targeting listed companies, it is important for asset owners to demonstrate an ideal society and provide funds with a long-term perspective.

Points

- **To realize the impact economy, three elements are essential: nurturing individuals to carry out the work, building a financial ecosystem, and designing genuine economic incentives.**
- **The absence of impact investment in the public market challenges the expansion of the impact economy.**
- **The key to increasing impact investment lies with asset owners providing the funds.**
- **Proactive measurement and disclosure of impacts by companies is also crucial for increasing impact investment.**



CLARIFYING
INVESTORS' INTENTIONS
through impact measurement & management

PART
02

Impact Measurement & Management

Improving corporate value through IMM incorporating social issue perspective.

Impact investing is an investment approach that aims to generate positive social and environmental impact alongside a financial return.

Investors need to monitor the social and environmental impact of their investee companies to ensure their intentions are being met and improve their overall investment portfolio.

Impact measurement and management is how this is achieved.

Impact Measurement & Management

Enhancing corporate value through essential IMM incorporating a social issue perspective

Impact Measurement & Management (IMM) of this fund, conducted in collaboration with Commons Asset Management, engaged in long-term investments considering non-financial information, and Ridilover, which has addressed over 400 social issue themes through various businesses, includes the following key points:

01

Utilizing both the perspectives of investees and social issues

Ridilover, an expert in social issues, employs a method called “structuring social issues,” developed over many years, to evaluate the impact created by investee companies from both the investees' perspective and the perspective of social issues. Specifically, we utilize a logic model that organizes causal relationships leading to impact creation from the investees' perspective, and a structured map that diagrams stakeholders' principles of action regarding social issues, to confirm whether business activities resolve bottlenecks in the social issue structure and whether the indicators in the logic model are appropriate.

02



Improving the quality and quantity of dialogue

Through dialogue, we explore the commonalities between the societies that the fund and the investee company aim to realize and define goals in that area. We will also discuss key points linking business and impact creation, and reflect these in the logic model. To implement IMM more effectively, we occasionally visit the sites of investee companies.

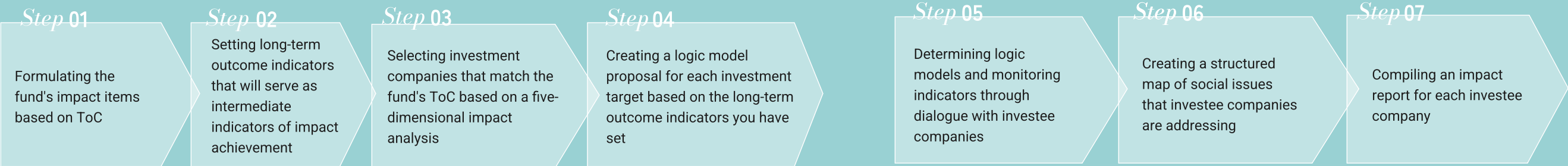
Setting predictive outcome measures

Instead of near-term measurable indicators, we will discuss and set appropriate long-term outcome indicators in the logic model to gauge the progress of problem-solving efforts by working backward from the impact. Setting predictive indicators requires careful analysis and organization of the connections between social issues and business, achievable only because our fund incorporates a social issue perspective.



03

Example of the IMM process for this fund





Problems that companies working to create impact can solve through "structuring social issues"

Our fund implements IMM through a method called "structuring social issues." This column explains why "structuring social issues" is a crucial technique for impact investors and its significance for evaluated companies.

The necessity of "structuring social issues" in IMM

Our fund's IMM evaluates impact from both the investee company and social issue perspectives. We employ a logic model focusing on the business to organize causal relationships leading to impact creation, along with a structured map that illustrates the principles of action of stakeholders related to the addressed social issues. The structured map visualizes the structure of social issues using a research and analysis method called "structuring social issues," developed by Ridilover for many years. "Structuring social issues" aims to accurately grasp the essence of social issues rather than just the surface, summarized by the three points in the diagram below. This organizing process helps us identify the "bottlenecks," which are factors consist of social issues, and the variables" that, if altered, may lead to a solution.

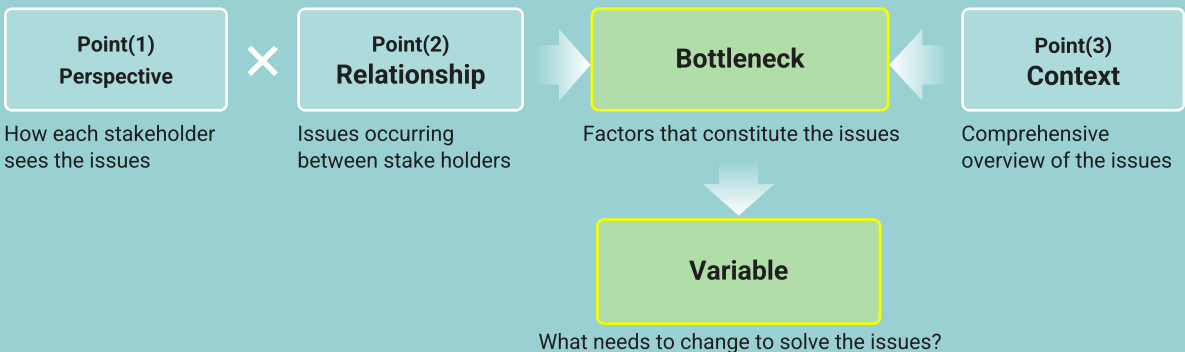
Applying this "structuring social issues"

methodology to IMM allows us to visualize whether the business activities of investee companies are variables that can resolve bottlenecks in social issues. We can also evaluate whether the indicators in the logic model accurately represent the value provided to stakeholders related to the issue. The "structuring social issues" approach is important to IMM because identifying the essential and fundamental causes of social issues is challenging due to their complexity. Due to this difficulty, even if we can monitor whether investments in individual investees resolve issues faced by specific stakeholders, it may remain unclear whether they are addressing the underlying structures creating those issues. Furthermore, even if we can confirm that a particular issue has been resolved, we may not recognize that it could be exacerbating other related social issues. For this reason, our fund implements IMM grounded in a structural analysis of social issues.

COLUMN #2 ADVANTAGES & PRACTICES

of the method of "structuring social issues"

Points of "structruing social issues"



Building businesses that are both impactful and scalable by “structuring social issues”

The method of “structuring social issues” is significant from two perspectives: for investors evaluating impact and for the companies being assessed. First, the link between social and business aspects is strong, making it possible to build a business that creates impact while also generating large financial returns. In recent years, an increasing number of companies are developing new businesses aimed at solving social issues and holding business contests based on the theme of social issues. However, there are concerns that many business ideas capture only issues relevant to the everyday lives of those in charge and participating employees, and are therefore unlikely to create significant impact or be scalable.

Companies facing such challenges can generate highly scalable business ideas and improve their LTV by “structuring social issues” they aim to solve. By sorting out the relationships and history among stakeholders involved in the issues faced by customers and identifying bottlenecks and variables, it becomes possible to build a business model that provides value not only to individual customers but also to surrounding stakeholders. When commercializing a business in the area of social issues, the people involved in the issues who will be the customers may not understand the causes of the issues or may not be aware that they are involved, making it difficult to identify the fundamental causes of the issues. However, by developing business ideas based on an understanding of the underlying causes of problems through structuring, it is possible to create a major impact by solving essential social issues



while also scaling the business.

“Structuring social issues” enables effective visualization of the connections between business and social issues

Second, by increasing the level of satisfaction of the formulated logic model and numerical targets, it may become possible to provide a persuasive explanation to stakeholders about their business efforts to address social issues. In recent years, an increasing number of companies are defining their purpose and materiality, expressing their intention to solve social issues, and formulating roadmaps for achieving this goal. However, Many companies are unable to interpret complex social issues and feel that they are not very satisfied with the logic models they have formulated and the numerical targets they have set. There are also reports of companies missing out on fundraising opportunities from impact investors and experiencing a decline in employee engagement because they are unable to properly explain the relationship between their business and social issues.

This can be addressed by adopting a 'structuring social issues' approach and creating a structured map. This is because by organizing the structure of the social issue that a company intends to solve and identifying bottlenecks and variables, it allows for refining the logic model from both the company and social issue perspectives. This allows for visualization of the connection between outcome indicators and bottlenecks and to clarify the causal link between business and impact creation, thereby enabling the formulation of highly convincing goals.

In addition, by visualizing the structure of the organized social issues using a structured map, it becomes possible to

visualize the relationship between a company's business and the leverage points for solving social issues, which cannot be fully shown using a linear logic model. This will enable companies to persuasively explain the connection between their company's business and solving social issues to stakeholders both inside and outside the company. As a result, they can gain sympathy from impact investors and employees, reduce fundraising costs, and increase internal engagement.

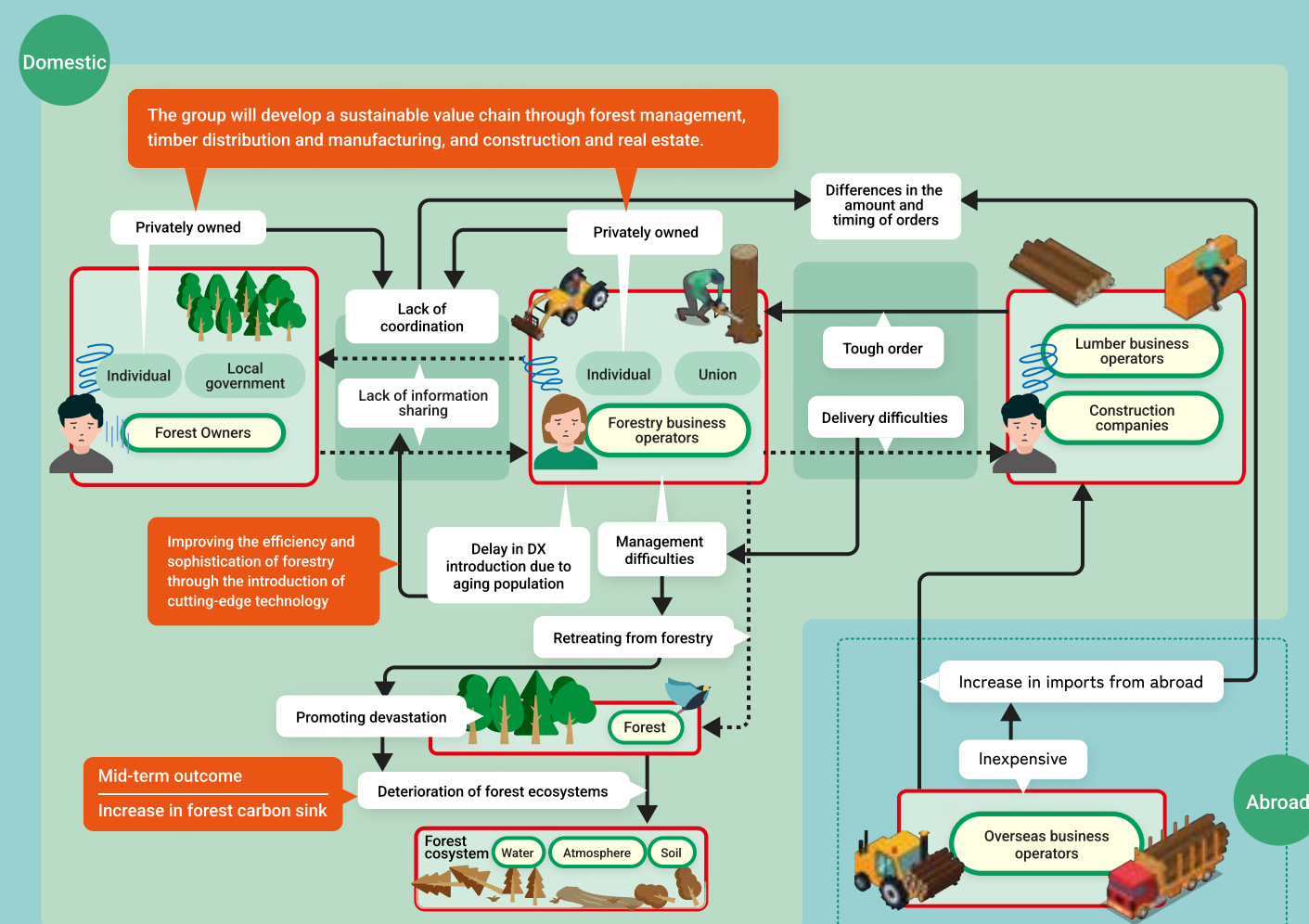
Two key points in “structuring social issues”

When companies work to structure social issues, it is crucial to consider two key points. This means appropriately setting the scope of social issues to be structured and incorporating both a bird's-eye view and the perspectives of stakeholders. Social issues do not exist independently but rather interact with each other, so they cannot be considered in isolation. However, organizing the structure requires defining the scope of the problems your company addresses. Therefore, it is necessary to grasp the connections between social issues and the overall picture from a cross-sectional perspective, setting an appropriate scope while considering your company's characteristics. In addition, in order to organize the relationships and historical background of the stakeholders involved, a bird's-eye view through desk research is necessary, but this alone may not reflect the actual situation of the parties who are facing the problems. Thus, interviewing involved parties and ground-level players is essential, and to reflect both macro and micro perspectives.

For a concrete example, we introduce the structured map of Sumitomo Forestry Co., Ltd., an investment target of this fund.

This fund has defined “the decline in forestry management leading to ecosystem deterioration in Japan” as a social issue that Sumitomo Forestry will solve. When setting the scope, it is possible to consider, for example, the deterioration of local living environments due to an increased risk of landslides, or the decline in opportunities for nature education due to the deterioration of forest ecosystems and their resulting decline in well-being. The decline of forestry management can also be explained by focusing on the falling demand for domestic timber due to the distribution of cheap imported timber, and management difficulties due to the aging of forestry workers and a lack of successors. However, our fund defines the core issue is the breakdown of the entire forestry supply chain. Therefore, the stakeholders involved in this issue include forest owners, forestry businesses, lumber businesses, and construction companies.

Another factor is the macro structure of declining domestic timber demand and reduced production due to forestry management challenges. However, this alone does not fully capture the situation of stakeholders. Forest owners are often small businesses or individuals with limited land. In addition, forest owners have no incentive to plant or reforest, which can result in a decline in interest in forestry management. As a result, there is a lack of coordination between forest owners and forestry businesses. The structured map shows that this lack of coordination has caused order discrepancies among lumber, construction, and forestry companies, resulting in management difficulties in the forestry industry, and outlines the more specific issues and relationships faced by each stakeholder. This process highlights



that Sumitomo Forestry's 'wood cycle' business model is a leverage point for addressing these issues.

“Structuring social issues” will be crucial for future corporate management

In this way, “structuring social issues” and creating structured maps are meaningful for both impact investors and companies. Companies must manage their businesses with a focus on impact creation. To build a business that combines essential problem-solving with scalability, and to explain the company's impact to stakeholders, fully understanding the overall picture of social issues and the challenges faced by involved parties is essential.

Points

- **The importance of “structuring social issues” in IMM lies in acknowledging the complexity of social issues.**
- **Efforts in “structuring social issues” allow companies to achieve both impact and scalability.**
- **Efforts on “structuring social issues” enable companies to achieve both impact and scale. Structuring social issues” enables companies to effectively demonstrate their impact.**
- **Defining the Issue scope and incorporating macro and micro perspectives are vital in “structuring social issues.”**

LOGIC MODELS AND STRUCTURED MAPS

as an original method for visualizing impact

PART 03

Investees' Impact Report

Visualizing Impact Using Logic Models and Structured Maps

We invest in Japanese listed companies working to create positive impacts in the areas of
"Enhancement of well-being", "Development of local communities and society",
and "Contribution to environmental protection", and as of July 2024, we are invested in 28 companies.
We summarize the impacts from each company's business activities in reports, and in this annual report,
we introduce three of them.

Corporate philosophy and business activities

SHIFT provides software testing services based on our corporate philosophy of "we seek out new value concepts and work sincerely to provide value to the world."

The company's services are divided into three categories: consulting, solutions, and quality platform. Our consulting services provide comprehensive support from development structure to test design and execution plan formulation plans in order to reduce defects that occur in the upstream stages of development projects. The solutions services provide test execution using the company's proprietary methods and automated testing script creation, maximizing productivity in software testing. The quality platform visualizes the company's quality assurance know-how and required testing skills optimizing the matching of

companies and engineers and evaluating the quality of various elements related to projects and testing. As of April 2024, over 3,000 companies have adopted the service, with more than 4,000 projects implemented annually.

In recent years, based on the knowledge gained through software testing, the company has been promoting the expansion of services in market areas adjacent to software testing and development, such as web planning, production, marketing, and cloud services. Furthermore, the company is actively engaged in M&A and currently has 40 group companies. Together with its group companies, the company provides comprehensive IT solutions under "ONE SHIFT," and provides various support forms for client companies in promoting digital transformation and developing sales-driving services.

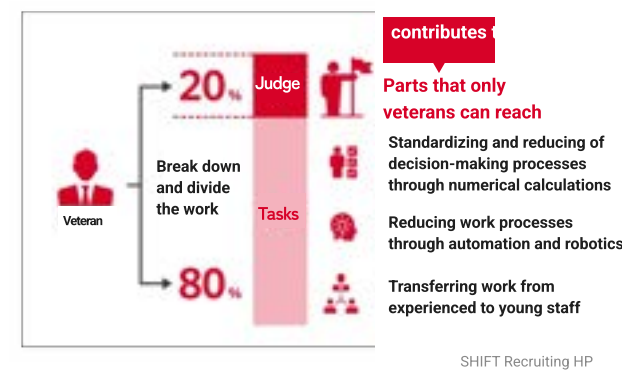
Notable initiatives from the perspective of outcome creation

Maintaining social life through the systematization of software testing and quality assurance

In today's society, where software is an indispensable part of daily life, system failures and defects from software released without proper testing and quality assurance can have a major impact on social life. Therefore, software testing and quality assurance are crucial. In addition, the quality and functionality required of software are becoming increasingly diverse, so it is essential not only to check for defects from a developer's perspective and verify from the user's perspective, but also to check from the user's perspective whether the software meets functional and quality requirements for daily life.

However, traditionally, software testing was integrated into the development process without established methodologies or unified standards, leading each development engineer to perform it from their own perspective. As a result, even if money was spent on testing, problems sometimes persisted.

To address these issues, SHIFT systematized software testing using manufacturing methods. By visualizing and breaking down work processes, the company was able to categorize tasks previously performed by experienced engineers into 20% "judgment" and 80% "tasks". And by standardizing and quantifying 80% of the



work, consistent quality can now be maintained.

Furthermore, by creating their own management tools, they also succeeded in improving the efficiency of test management.

By systematizing this way, testing previously integrated into the development process was divided into separate tasks enabling high-quality testing at low cost. It also made it possible to improve work efficiency through tests carried out by engineers who were optimized for the task, and to ensure quality by incorporating third-party input instead of relying on specific individuals, bringing transformative benefits to the IT industry.

Resolving the subcontracting structure through M&A and improving the working environment for engineers

Japan's IT industry faces a problem with a "multiple subcontracting structure" in which software development projects received by development vendors such as system integrators as prime contractors pass them on to medium-sized and small-scale development vendors.

In a multi-tiered subcontracting structure, companies at the bottom of the hierarchy receive low compensation, and engineers working there are also paid low wages. As most software development companies in Japan are small and medium-sized businesses taking on subcontract work, many of the country's development engineers work in high-stress, low-reward working environments.

Furthermore, engineers at subcontracting companies often work on jobs with subdivided downstream processes, hindering their ability to improve skills. As a result, career advancement or salary increases are limited, even after many years of work, leading to an increase in engineers leaving their companies.

SHIFT tackles these problems in the IT industry from two approaches. The first is to break away from the subcontracting structure by managing entire

development projects including downstream processes, while communicating directly with client companies in the upstream processes of the project. The second is to eliminate the subcontracting structure by acquiring through M&A small and medium-sized companies with technical capabilities that have become third- or fourth-tier subcontractors. As of August 2024, the company has carried out a total of 33 M&A transactions (excluding seven capital and business alliances). In fact, the unit price of engineers at companies that after their integration, which demonstrating that this contributes to higher salaries for engineers.



Contributing to resolving engineer shortages by systematizing software testing

Japan is currently facing a serious shortage of IT personnel, including engineers. According to the Ministry of Economy, Trade and Industry's "Survey on IT Human Resources Supply and Demand", an estimated 450,000 IT personnel will be lacking by 2030. In particular, there is a serious shortage of human resources capable of working with advanced technologies, expected to boost productivity and meet rising demand, causing major economic losses.

One of the reasons for the shortage is thought to be that personnel who understand the specifications of conventional systems are retiring, leading personnel skilled in cutting-edge technology to be allocated to maintaining aging systems. Such maintenance work is unattractive to those who have studied cutting-edge technology and can lead to employees leaving their companies.

SHIFT's systematization of software testing

operations has contributed to solving these problems in two ways. First, by separating testing from the development process, engineers with cutting-edge technology can focus on development. The second is that by standardizing 80% of work processes, a diverse range of non-IT professionals can be involved in software testing.

As a result, 1,309 of SHIFT's 989,740 engineers employed as of 2023 are non-IT professionals who have transferred from a variety of industries, including service, food and beverage, apparel, and civil service industries.

In this way, SHIFT is contributing to resolving the labor shortage in the IT industry by creating an environment where development engineers with cutting-edge technology can utilize their skills, and by standardizing tasks that do not require cutting-edge technology, allowing more people, including those with no experience, to be involved.

The structure of social issues addressed through business activities

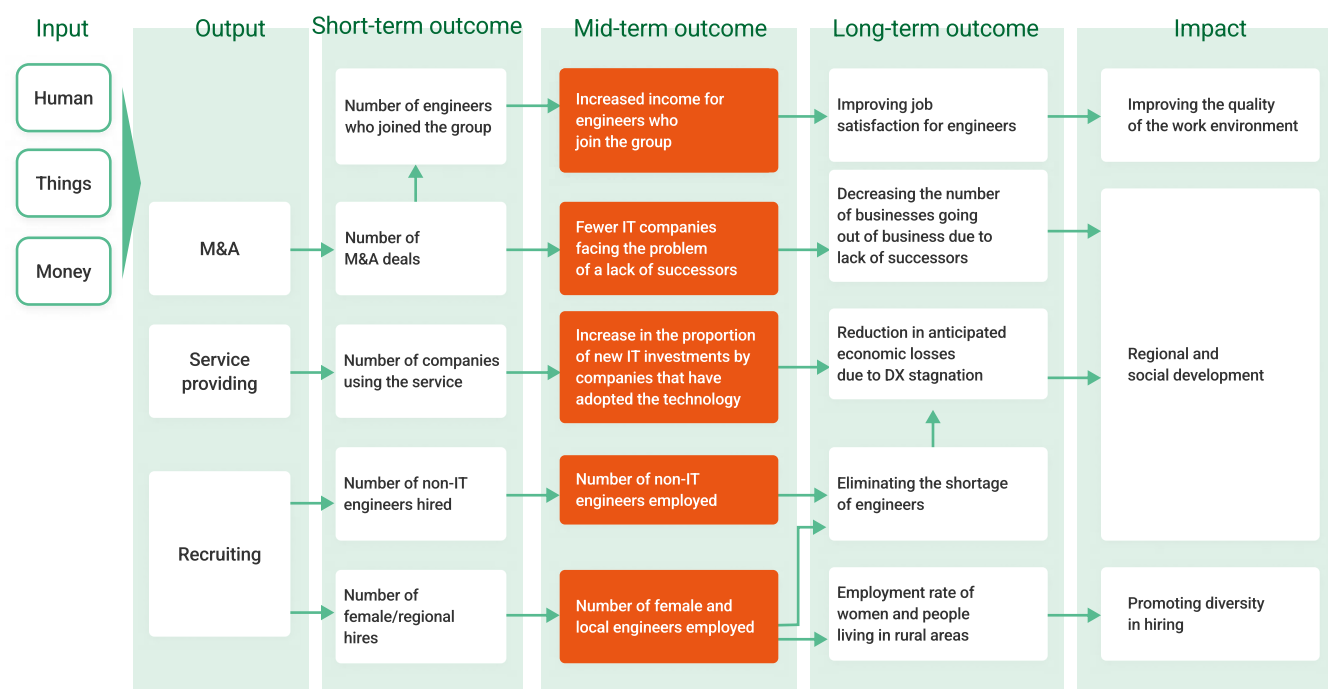
SHIFT is working to solve the problem of "inconveniences in social life and economic losses due to an engineer shortage and inadequate software testing." Japan's IT industry has a multi-tiered subcontracting structure, and the lower the subcontractor level, the less appropriate the compensation. In addition, although software development, testing, and quality assurance inherently require different expertise and skills, development engineers are often assigned to testing tasks outside their expertise. Development engineers at subcontracting vendors are leaving their jobs due to dissatisfaction with low compensation and being assigned tasks outside their specialty. With the current shortage of engineers to meet IT demand, increased development engineer turnover would make it difficult for subcontractors to deliver products meeting quality standards to prime vendors. As a result, it becomes difficult for prime contractors to carry out high-quality development.

In addition, there is a shortage of development engineers in charge of testing work, so there is a need to involve individuals without IT experience, but who are suitable for testing, in testing work. However, because

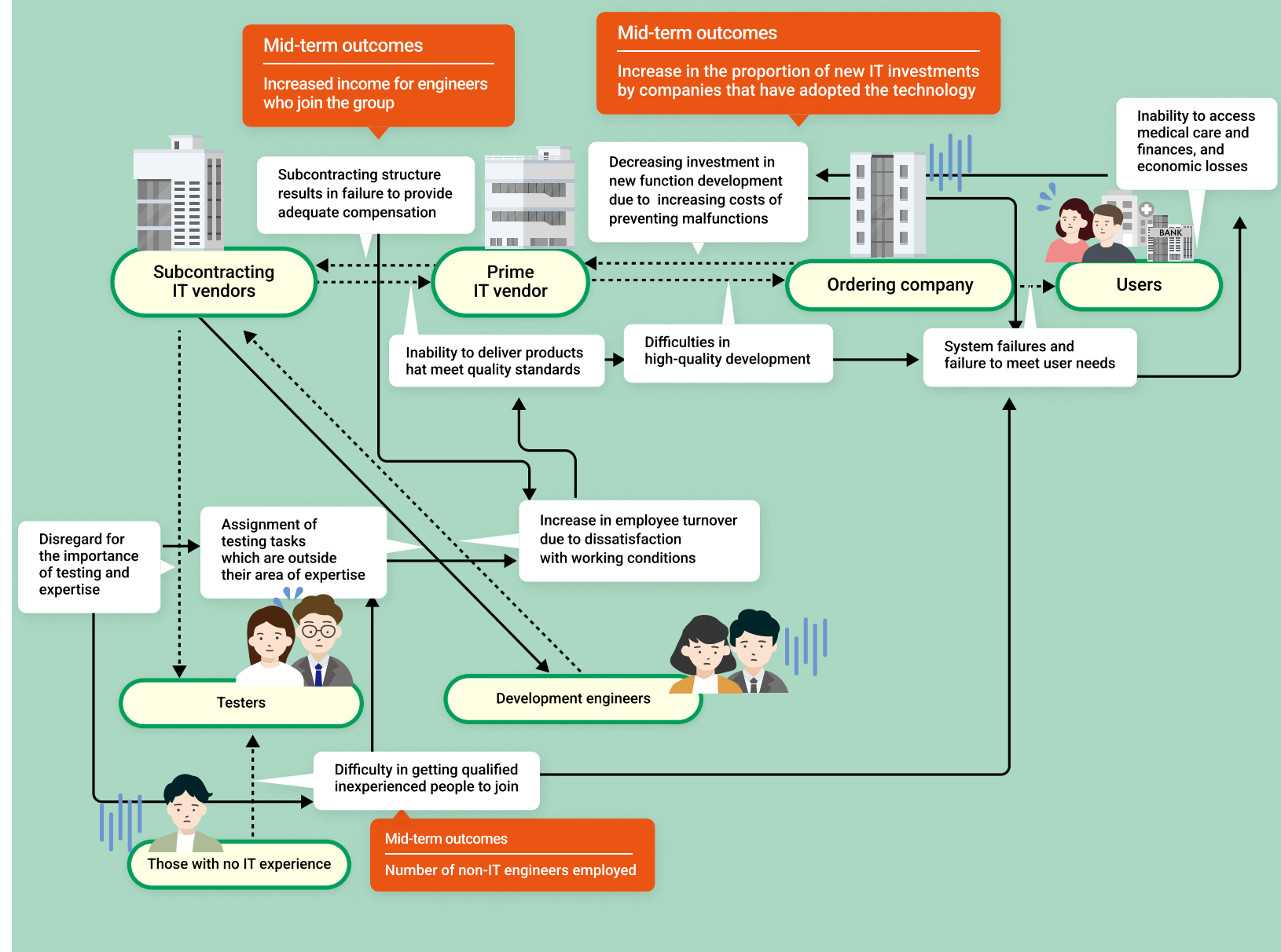
the importance and expertise of testing is not valued, the required qualifications are unclear, making it difficult to increase the number of engineers working on testing.

These problems can cause system failures in the software that forms the basis of the services provided to users by the original company that commissioned the software development, or can result in services that fail to meet users' quality standards, resulting in inconveniences in social life such as healthcare and finance, and economic losses. Furthermore, when system failures or other problems occur, companies overemphasize preventing malfunctions, which will increase costs and reduce investment in developing new functions. This creates a vicious cycle, making it even harder to provide services that meet users' quality demands.

To address these issues, SHIFT has grouped subcontracting vendors through M&A and placed orders directly with them, thereby increasing the income of subcontracting engineers. Furthermore, by dividing the tasks between development and testing and visualizing the expertise required for testing, they have created a system that allows people who are suited to testing to take on the job, even if they do not have IT experience.



Inconveniences in social life and economic losses due to an engineer shortage and inadequate software testing

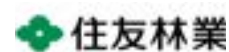


Logic model designed to create impact (to be discussed further)

First, as a contribution to improving working conditions for engineers who are forced to work in poor conditions due to the multi-tiered subcontracting structure of the IT industry, we will measure the income increase of engineers who join the group through M&A and the corresponding improvement in their job satisfaction. Since the subjects of measurement are engineers at SHIFT, it may seem like a producer indicator, but because the company is addressing industry-wide issues by intentionally increasing the number of engineers joining through M&A, it should be considered

a recipient indicator in a broader sense. In addition, by dividing up development and testing into separate roles, the number of non-IT engineers will increase, thereby resolving the engineering shortage across the industry. It would be valuable to monitor long-term how much the current economic losses from DX stagnation are reduced as a result.

In addition, we will continue to explore whether we can also track the hiring of female engineers and the promotion of diversity across the IT industry, including the hiring of engineers in regional areas.



Sumitomo Forestry Co., Ltd

Established: February 20, 1948
Capital: 55,088 million yen (FY 2023)
Consolidated number of employees: 24,815 (FY2023)

Corporate philosophy and business portfolio

Based on the "Sumitomo Business Spirit" of emphasizing fairness and trustworthiness and benefiting society, Sumitomo Forestry has upheld its management philosophy of contributing to the realization of a sustainable and prosperous society through a wide range of services related to people's lives, utilizing "wood," which is friendly to people and the global environment.

The entire group will carry out business activities based on the 'wood cycle,' which encompasses everything from forest management to wood processing and distribution, construction of wooden houses, and biomass power generation. Sumitomo Forestry operates in housing, lifestyle services, resource recycling, wood and building materials, as well as overseas real estate

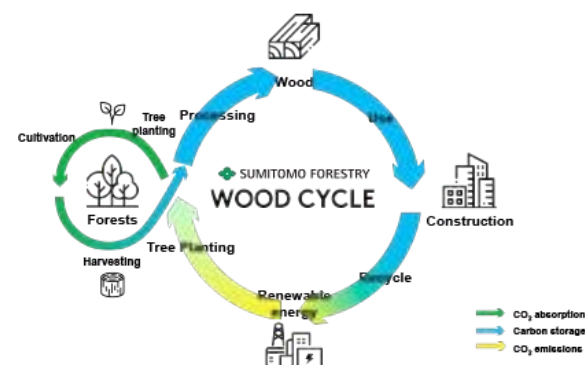
and construction. Notably, the company has built a unique value chain within the Sumitomo Forestry Group. This portfolio reflects business development aligned with the changing needs of the times. over the course of approximately 330 years since our founding in 1691.

The company now operates a business that maximizes renewable forest resources. It manages approximately 286,000 hectares of forests, including FSC-certified forests, under its sustainable forestry model, promoting biodiversity and supporting local communities. Sixty percent of the housing supplied is overseas, reflecting steady global expansion. The company expects continued growth by meeting the new housing needs of younger generations, such as millennials and Gen Z.

Notable initiatives from the perspective of outcome creation

Sumitomo Forestry Wood Solution for realizing a sustainable society

Due to deforestation, the aging of forestry operators, and a decline in workers, the value of Japan's forests, which account for 66% of the land area, as noted by the Learning Museum of the Forest and Forestry, is underutilized, posing a social issue. Efforts must be made to unlock forests' full potential value in terms of CO2 absorption and ecosystem maintenance. Sumitomo Forestry is built around three pillars: forests, wood, and construction, and it operates a sustainable value chain from upstream to downstream. We maintain forests through harvesting and replanting, distribute timber, construct wooden houses, and use waste materials for renewable energy. The company uniquely builds these value chains in-house while creating environmental value, and has set a target of achieving 250 billion yen in ordinary profit by 2030 under its "Mission TREEING 2030" initiative.



▲Sumitomo Forestry official website

Strengthening the industry through the establishment of timber industrial complexes

Even with growing public demand for wooden houses, skyrocketing building prices will not lead to purchases. Sumitomo Forestry is therefore considering establishing timber industrial complexes

that would consolidate in one place log storage, lumber factories, wood biomass power plants, and port facilities for exports. Creating a one-stop flow can improve wood manufacturing productivity and reduce

costs. In addition, by establishing industrial complexes based on the premise of utilizing domestic timber, it will contribute to improving the country's self-sufficiency rate for timber and positively impact job creation in forestry. The goal is to use 1 million m3 of domestic timber per year by 2030.

Maintaining forests requires constant proper management, however, if the forestry industry as a whole stagnates, forest roads will remain underdeveloped and large-scale harvesting will become difficult. As a result, the manufacturing process is negatively impacted. Strengthening the forestry industry contributes to improving manufacturing efficiency and curbing price hikes, as it helps to provide building materials that meet public needs.



▲Sumitomo Forestry official website

The potential of wooden buildings to improve well-being and health

Sumitomo Forestry is continuously developing facilities, buildings, and cities that use wood. In recent years, the company has focused on constructing large wooden buildings, including university buildings, concert halls, and elderly care facilities. In particular, as the aging of the population accelerates in the future, the increasing need for wooden construction for elderly care facilities is expected to directly lead to business growth. The Forestry Agency provides the public with information about forests on its official website. One such article, titled 'Wood is good for your health,' presents data from a 1997 survey by the Japan National Council of Social Welfare on residents of special nursing homes for the

elderly, comparing the incidence of physical and mental disorders based on how much facilities use wood. The survey results showed that elderly people who lived in facilities that made heavy use of wood were less likely to experience physical and mental ailments like influenza, itching, falls, and insomnia. his is just one example, but as we become able to measure the value of wooden buildings in terms of improving residents' well-being and health, the use of wood in various facilities is likely to increase. As the business expands, this initiative can enhance the creation of social value for consumers where it is lacking.

▼ An example of a medium to large-scale wooden building (elderly care facilities) by the Sumitomo Forestry Group

Paid nursing home for the elderly (Shijonawate City, Osaka Prefecture)
This is the first large, two-story wooden nursing home in Osaka Prefecture to apply the separate building interpretation (Ministry of Construction, Housing Bureau Notice No. 14 of 1951 issued by Building Disaster Prevention Office) and have a semi-fireproof structure. This is the first semi-fireproof building to use commercially available materials used in ordinary homes.



▲Sumitomo Forestry official website



The structure of social issues addressed through business activities

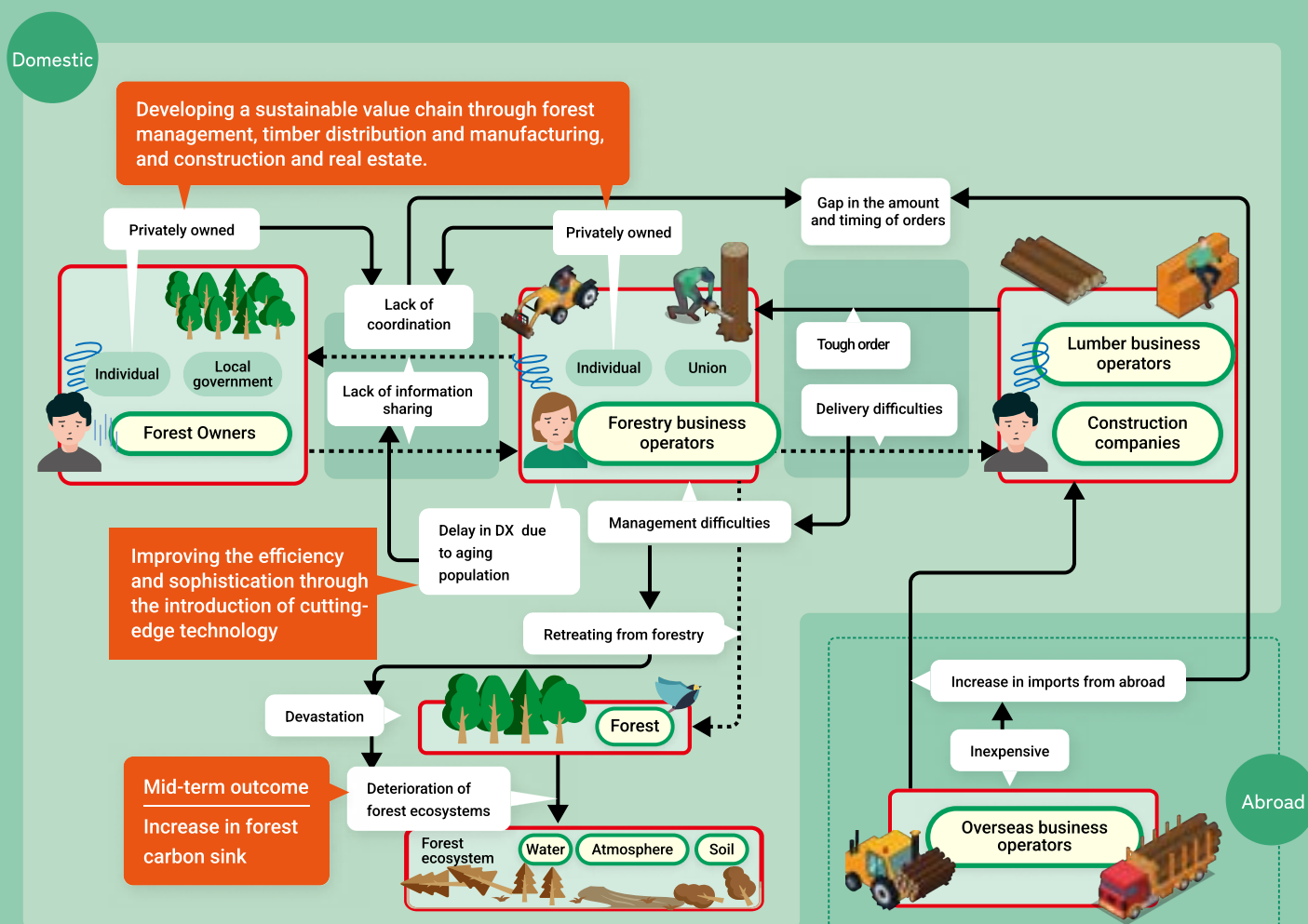
Through its business activities, Sumitomo Forestry is working to solve the problem of "the problem of deteriorating forest ecosystems due to declining forestry management in Japan." In Japan, approximately 90% of forest owners are small businesses, associations, or individuals owning less than 10 hectares. Approximately 18% of forest owners do not take any steps at the time of inheritance, meaning that it takes a long time to clarify their intentions and establish forest boundaries. Approximately 25% of forestry workers are aging, and the introduction of digital transformation is also lagging. Due to these factors, forestry business activities are becoming inefficient.

Meanwhile, overseas, forestry operations have become more efficient, resulting in lower prices for imported timber compared to domestic timber. In comparison with imported timber, domestic lumber companies and construction companies that use

wood are increasingly placing challenging orders for domestic timber. Forestry businesses are facing management difficulties due to various factors, their numbers have decreased by about a quarter between 1985 and 2015. The decline in the number of people working in forestry is accelerating the degradation of forests.

Sumitomo Forestry manages the entire value chain as a group, and is involved in forest ownership, forestry operations, timber distribution, construction, etc. The introduction of the latest technology to enhance efficiency in forestry operations and promoting timber construction in expanding markets such as elderly care facilities is improving and expanding the industry overall. We will also measure CO2 absorption by the forests we manage to visualize the creation of environmental value through management. The effectiveness of the value chain is being verified to what extent it has been able to reduce the deterioration of forest ecosystems.

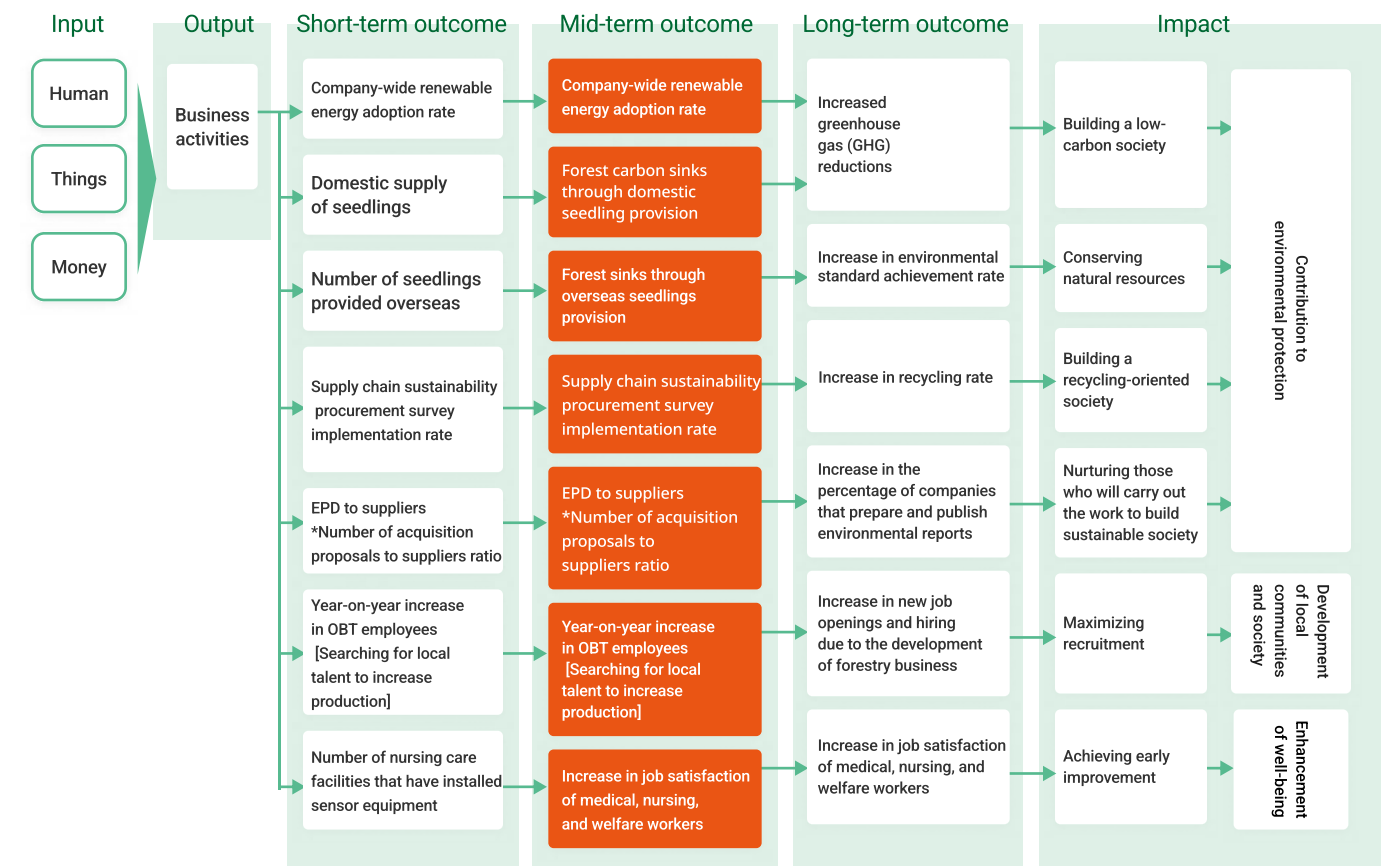
the problem of deteriorating forest ecosystems due to declining forestry management in Japan



Logic model intended to create impact (will be discussed with investee companies in the future)

In order to summarize the impact created by Sumitomo Forestry, the following logic model has been developed. Among the many outcome indicators that contribute to environmental protection, one that is particularly noteworthy is the measurement of CO2 absorption through forest management. As mentioned above, it is rare for business activities to start with forest management, which is an upstream process in the value chain. Additionally, as a company with advanced

technical capabilities, it uniquely conducts detailed monitoring. In addition to the environmental value, tree planting is likely to create local jobs overseas. Furthermore, wood construction in nursing care facilities will enhance the satisfaction of healthcare and welfare workers, creating a social impact. As the business is built on a complete value chain, the scope of impact it creates is diverse.



RAKSUL Inc.

Established: September 1, 2009
Capital: 2,768,310,000 yen (as of the end of January 2024)
Number of employees: 533 (as of the end of July 2023)

Corporate philosophy and business activities

Raksul Inc. transforms large-scale traditional industries through digital innovation, guided by its vision "changing the way things work, the world will be a better place." The company develops digital solutions that address challenges faced by both customers and suppliers. Its core platforms include "Raksul" for printing and customer acquisition, "Novasell" for marketing, and "Hacobell" for logistics (established as a joint venture in 2022).

Looking ahead, Raksul aims to expand beyond industry-specific platforms to build a comprehensive B2B transaction platform. The company continues to reduce client and user costs through various services, including SaaS solutions. To achieve these goals, Raksul pursues a diversified portfolio strategy through in-house service development, mergers and acquisitions, and joint ventures.

Notable initiatives from the perspective of outcome creation

Revolutionizing the Printing Industry and Supporting Small Business Growth

Raksul's printing platform, launched at the company's founding, remains its core business driver with 2.31 million registered users as of July 2023. During the 2010s, the printing industry was characterized by oligopolistic control and multi-layered subcontracting structures. This resulted in subcontracted printing companies operating at only 50-60% capacity with low profit margins, leading many to financial distress. Meanwhile, clients faced challenges with opaque pricing, complex supply chains, and lengthy processing times.

To address these issues, Raksul developed a system that efficiently utilizes printing companies' idle capacity. By matching clients seeking fast, cost-effective printing

services with printing companies struggling with excess downtime, the platform resolves challenges for both parties. This solution particularly benefits printing companies by converting idle time into revenue, thereby improving their financial performance.

Beyond matchmaking, Raksul provides consulting services to printing companies. This enables smaller printing businesses to access the same quality materials and production expertise as larger companies, helping bridge the information gap between small and large enterprises. Through Raksul's services, some small businesses have achieved up to 90% cost reduction through improved production efficiency.



▼Partially quoted from RAKSUL's Corporate Website, Service Introduction Page, Financial Results for the 3rd Quarter of the FY 2022, and Value Creation Report 2022.

Establishment of Hacobell Joint Venture: Transforming Logistics Through Digital Innovation

Japan's logistics industry faces a critical shortage of truck drivers, further complicated by the 2024 implementation of overtime regulations limiting annual overtime to 960 hours. This regulation threatens drivers' income levels previously maintained through excessive working hours, potentially accelerating driver shortages. While e-commerce growth drives increased and diversified delivery demands, maintaining service quality becomes increasingly challenging. According to the Ministry of Land, Infrastructure, Transport and Tourism, without concrete measures to address driver work regulations, Japan could face logistics capacity shortfalls of approximately 400 million tons in FY2024 and 900 million tons by FY2030.

To address these challenges, Raksul launched Hacobell. The logistics industry has traditionally relied on phone and fax communications, leading to poor delivery tracking and inefficient driver utilization within multi-layered subcontracting structures. Hacobell's platform optimally matches shipping customers with registered

truck drivers, applying expertise from Raksul's printing platform. This system enables customers to ship goods quickly, affordably, and safely while helping drivers stabilize income by utilizing previously idle time.

Additionally, Hacobell offers a cloud-based logistics DX system primarily targeting shipping companies. By digitalizing dispatch operations and centralizing information management, the system enables logistics data visualization and reduces operational and transportation costs.

To accelerate industry-wide efficiency improvements, Raksul established a joint venture, Hacobell Inc., with Seino Holdings Co., Ltd. in June 2022. The ownership structure comprises Seino Holdings at 50.1% and Raksul at 49.9%. This partnership allows Hacobell to leverage Seino's extensive customer base and business network built over many years. The effectiveness of this strategy is evident in the nearly doubled user registration numbers following the joint venture's establishment.

Entry into Financial Platform Services

In September 2024, Raksul announced its entry into financial platform services, including banking solutions. Through its existing platforms, Raksul serves 2.65 million users, primarily small and medium-sized enterprises (SMEs) and sole proprietors. User interviews revealed that these businesses spend considerable time and resources on financial operations, particularly account opening and transfer fees. The research highlighted a notable gap in B2B financial settlement services compared to B2C offerings, creating significant operational challenges for businesses.

To address these issues, Raksul aims to transform payment and cash flow management systems to improve financial operations for SMEs. The company plans to integrate payment services with existing e-commerce platforms, creating a seamless experience for current users. Additionally, Raksul has begun exploring a partnership with SBI Sumishin Net Bank to develop financial services utilizing their full-banking BaaS (Banking as a Service) platform.

▼Quoted from RAKSUL's press release



These integrated payment services, working in conjunction with existing platforms, are expected to significantly reduce back-office workload and improve operational efficiency for mid-sized and small businesses. From our fund's perspective, this initiative aligns with Raksul's mission of driving SME revenue growth and contributing to regional and social development. With services scheduled to launch progressively from 2025, key metrics to watch will be the actual efficiency gains achieved and their impact on addressing fundamental management challenges faced by SMEs.

The structure of social issues addressed through business activities

Raksul tackles the challenge of struggling small and medium-sized printing companies affected by industry inefficiencies, which in turn impacts the business sustainability of local SMEs and sole proprietors. According to the Japan Federation of Printing Industries' "Printing Industry Annually Report Vol.3 2024," 97.3% of printing companies have fewer than 100 employees per location, with 60.4% having 10 or fewer employees. However, the same report reveals that just 2.7% of companies—those with 100 or more employees—account for 40.7% of the industry's shipment value. Raksul's research indicates that this concentration results in a multi-layered subcontracting structure where two major companies outsource 60-70% of their projects to smaller printing companies.

The printing industry's inherent challenge of seasonal and volume-based fluctuations, combined with this subcontracting structure, leads to operational inefficiencies. Raksul's studies show that printing companies typically operate at only 50-60% capacity. This inefficiency prevents smaller printing companies from growing their revenue and profits, making it difficult to invest in new technology and equipment.

Another significant inefficiency stems from analog operations that make small-lot printing challenging and increase user costs. Traditional printing operations are designed for large-volume orders, with deeply rooted analog business practices. Standard printing machines operate based on fixed paper sizes, often resulting in

waste for smaller orders, which drives up unit costs and strains clients' finances.

Local SMEs, sole proprietors, and shopping districts face additional challenges from the expansion of large suburban stores and chain retailers, leading to declining customer numbers and business sustainability issues. While these businesses need to promote themselves to local residents, their deteriorating financial situation makes it difficult to allocate resources for marketing. The situation is further complicated by the increasing bankruptcy of local printing companies, removing valuable partners who understand local market dynamics and can suggest effective promotional strategies.

To address these challenges, Raksul works to solve inefficiencies for both suppliers and users. The company optimizes matching between printing needs and nationwide printing partners, streamlining the entire process from order to delivery. This approach improves capacity utilization for small printing companies while enabling users to access high-quality, cost-effective small-lot printing services. Additionally, Raksul offers comprehensive promotional services, including newspaper inserts, direct mail, and posting services, handling everything from printing to distribution. These initiatives enable local SMEs to sustain their operations, contributing to sustainable regional economic development that leverages each area's unique characteristics.

Logic model intended to create impact (will be discussed with investee companies in the future)

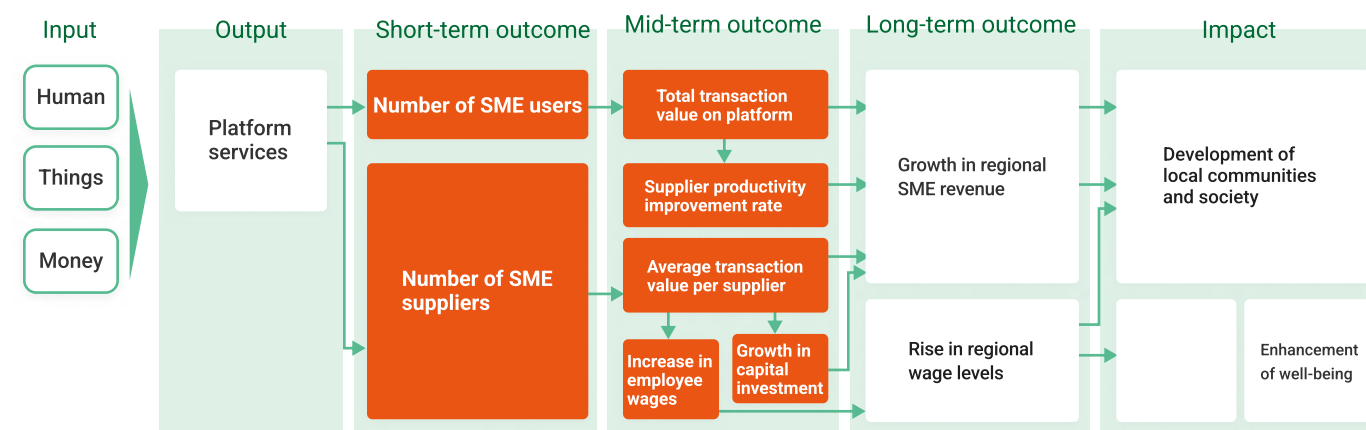
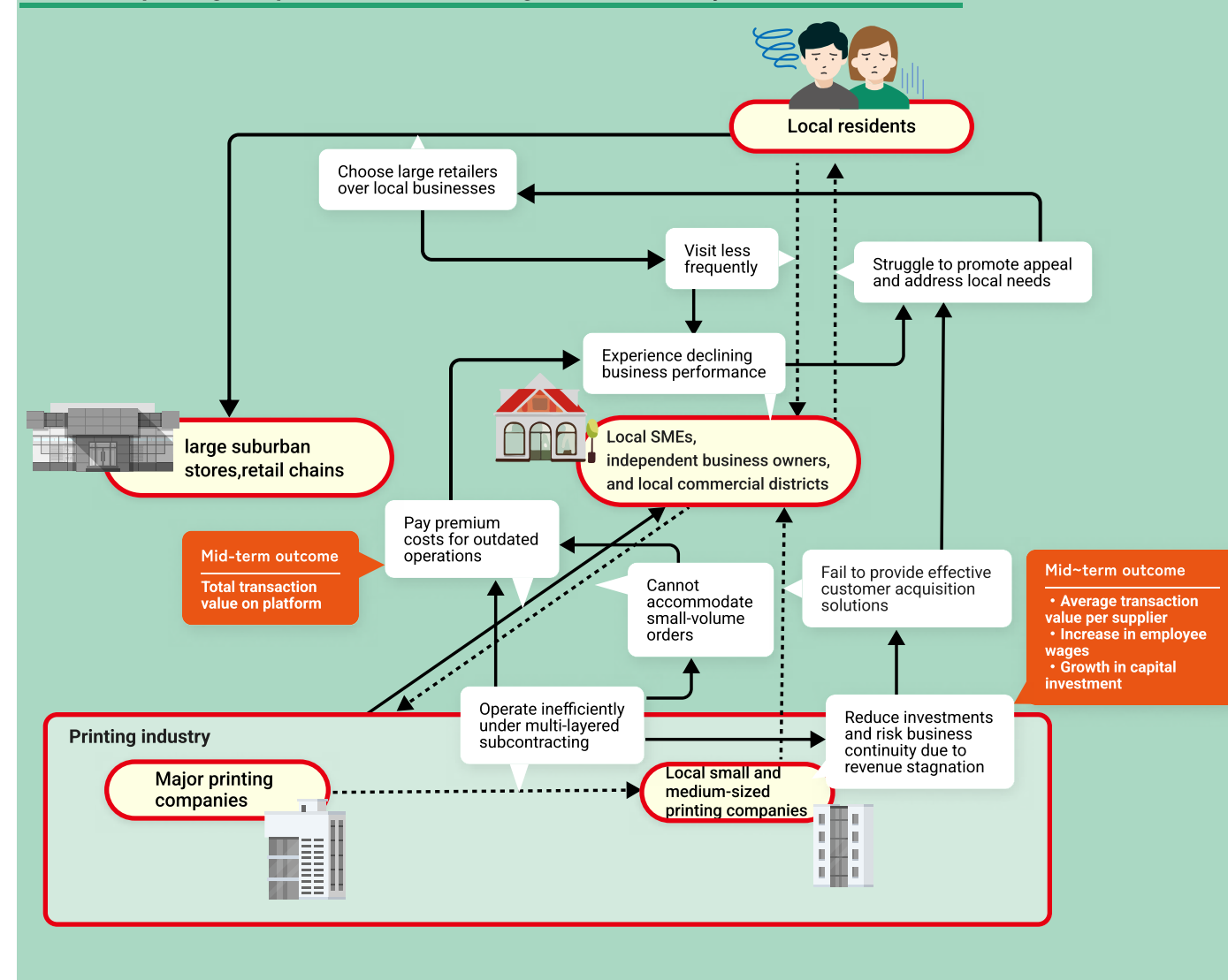
To systematically evaluate Raksul's impact creation, we have developed a logic model that focuses on long-term outcomes: increased sales for medium and small enterprises and higher regional wage levels. These outcomes are expected to result from addressing both supplier and user challenges stemming from printing industry inefficiencies, as detailed in our structural analysis.

On the user side, we monitor outcome indicators through user growth trends and total transaction value on the platform. For supplier-side outcomes, we

currently track the number of suppliers and productivity improvement rates that are already measured and disclosed. We are also considering the feasibility of monitoring average transaction value per supplier.

Additionally, we plan to develop monitoring methods to evaluate how productivity improvements translate into increased employee wages and enhanced capital investment at supplier companies. These metrics will be evaluated through a combination of statistical estimation and survey methodologies.

The deteriorating business conditions of local enterprises and sole proprietors, resulting from small printing companies' survival challenges due to industry inefficiencies



IMPACT
MEASUREMENT
from representatives and managers of the 3 companies

PART

04

Dialogue with Investee

Change through impact-driven management

It is not easy to transition from traditional corporate management, focused on short-term profits, to long-term, impact-focused management, and few examples of this exist yet. In this report, we explore the changes and future possibilities the 'impact' language brings to corporate management, with Seino Holdings Co., Ltd., one of our investee companies.

Dialogue Seino HD was founded in 1930. The company has supported Japan's logistics infrastructure for over 90 years, but in recent years has begun a variety of new initiatives utilizing new technologies. These are based on the teachings of Rihachi Taguchi, Yoshitaka Taguchi's grandfather, who said, "Develop the company and make employees happy."



Seino Holdings Co., Ltd. (hereinafter, "Seino HD"), an investment target of this fund, announced its "Long-Term Vision and Roadmap 2028 Toward Enhanced Corporate Value through Green Logistics" in June 2023. This roadmap focuses on a shift to impact-driven management by reducing CO2 emissions and addressing the driver shortage. Yoshitaka Taguchi, CEO of Seino HD, Tetsuro Ii, CEO of Commons Asset Management Co., Ltd., and Toshiki Abe, CEO of Ridilover Inc., spoke about the background to this shift, the changes it has brought about, and how it looks from the perspective of investors and those specializing in social issues.



Seino Holdings Co., Ltd.
<https://www.seino.co.jp/seino/shd/>

Established in 1946. In its mainstay Transportation Services business, the Company has taken steps to build even more convenient logistics systems, all logistics systems, all the logistics systems, all the while adhering to its "customer-first" principle.

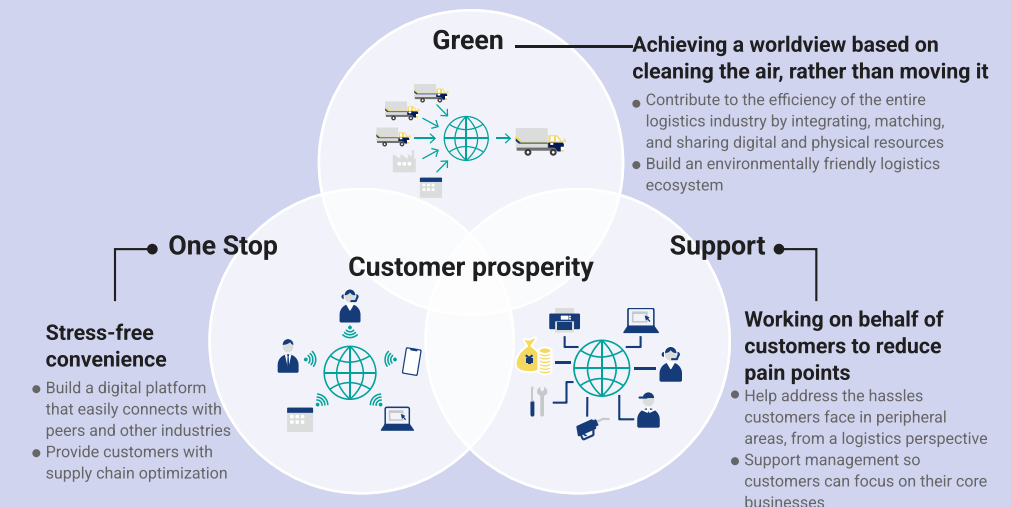
What is the background of Seino HD's management plan formulation centered on realizing green logistics?

- Taguchi: Due to population decline, there are fewer drivers, so there is a need to improve efficiency. To improve efficiency, it is necessary to increase the loading rate by sharing cargo or loading other cargo into the same vehicle. Consequently, we must now consider not only our own profits but also collaboration across corporate and industry sectors; this is the background of the formulation of our new management plan.

- Abe: Seino HD has been focusing on innovation for several years, but this change in its management strategy, I believe, has significantly accelerated its efforts. Is there any reason for that?

- Taguchi: This is because sustainability considerations such as ESG and impact investment have been added to today's capitalism. In the past, capitalism placed emphasis on a high IRR, and when undertaking an initiative as a long-term investment, the low short-term profit rate was often pointed out. Nowadays, however, management is expected to include all stakeholders, making it easier to explain initiatives such as green logistics.

Next, Ii-san, could you tell us why the Commons Impact Fund is investing in Seino HD?



- Ii: It all started when I proposed to Taguchi-san that we increase the resolution of our initiatives, such as green logistics and improving the working environment for drivers, by communicating them to investors. He told me he intended to move forward with it.

Many companies say they are "doing good things," but they don't explain what and how good they are; they tend to rely solely on the enthusiasm of the management. However, in impact investing, it is necessary to visualize and evaluate the 'good things.' Quantification isn't everything, but it helps convincingly explain what and how good they are.

I have known for a long time that Seino HD is doing "good things." With the increased resolution of the good things and its clear indication

in the medium-term management plan, we are investing in the company as an impact fund.

- Taguchi: Ii-san taught me a lot of things. One of them is backcasting. Until now, we have formulated medium-term plans centered on P/L, but in our new medium-term management plan, we have shifted from scale and P/L-focused plans to a "medium-term roadmap" aimed at increasing social and economic value, with the goal of enhancing corporate value by realizing green logistics.

- Ii: It would be ideal to work backwards, factorize the elements that create impact, and explain which elements need to be changed to achieve the goal. Through this fund, Japan Post Insurance intends to use the funds to "Enhancement

“The market's shift towards sustainability has boosted the concept of "Team Green Logistics".”

of well-being," "Development of local communities and society," and "Contribution to environmental protection," and Commons Asset Management is in charge of management. We backcast from these three axes to create intermediate indicators, organize them into a logic model, and engage in dialogue with companies.

In the case of Seino HD, they have explained to us how much green logistics positively impacts society, based on changes in intermediate indicator values and forecast values for the next three years.

We found that increasing the resolution of our impact creation goals was important. Next, Abe-san, please tell us how you evaluate the impact of Seino HD.

- **Abe:** I think the investment in Seino HD represents a characteristic of impact investing in Japan. Creating a common global index may not capture the reality of social issues specific to each country or region. While there is currently a global consensus on the need to reduce CO2 emissions, Japan faces a problem of undelivered goods due to a labor



We aim to work harder to address the issues faced by our customers and the local community.

shortage. The problem of undelivered goods is not recognized globally, but it has a significant negative impact on the dysfunction of social infrastructure. Consumers may find themselves with fewer choices, which could lead to difficulties in their daily lives. Therefore, it is important to properly evaluate initiatives while considering multiple social issues, such as reducing CO2 emissions and improving the issue of undelivered goods.

For the financial sector to internalize external diseconomies in the future, considering the characteristics of its business and

the social issues in its region, it will be important to identify and highly evaluate cases like Seino HD. If we can strictly adhere to global standards and criteria, while conducting impact investments optimized for regional characteristics, and honestly fulfilling our accountability, I believe we can create a new standard for impact investment originating in Japan.

- **li:** Regarding numbers and indicators, the world is still feeling its way around. Until now, investors have assessed corporate value mainly based on financial information such as P/L, but they must now consider which figures to evaluate non-financial information. I believe improvement will increase if companies and we, the investors, think about this together through dialogue.

Has there been any change in your communication with investors regarding this management plan?



We will help align progress in medium-term outcomes with stock prices.

- **Taguchi:** The opportunities for dialogue have increased. We are able to explain our aspirations, the problems we want to solve, and how we aim to achieve our goal. However, the actual results cannot be fully visualized, and we are currently working under the hypothesis that this is the best solution. That's why we foster dialogue, gather collective wisdom, receive feedback, and create new measures.

- **li:** This is the key difference between ESG and impact investing. In ESG investing, companies disclose set figures such as their CO2 emissions, and investors assign a score to evaluate the company's pros and cons. Moreover, the evaluation is based on past figures.

In impact investing, predictability is important. Companies proactively identify the social issues they are addressing, and investors engage in dialogue to evaluate these issues. From the perspective of ESG investors, companies only need to disclose non-financial information. However, from the perspective of impact investors, it is important that goals and the path to achieving them are explained through dialogue.

- **Taguchi:** I think the turning point was when we decided to launch the

concept of "Team Green Logistics." Until then, we had been internally considering how to obtain ESG evaluation, but our attitude has now shifted to proactively promoting the concept of Team Green Logistics to society.

Abe: I think it is important for companies, like Seino HD, to form a common understanding of social issues through dialogue with the market. A social issue is only defined through consensus reached



We provide financial support to companies committed to creating impact.

via dialogue with society. Therefore, it is essential to get people interested in the issues your company is addressing through dialogue and reach a consensus.

The media in which I appear also sometimes deals with the 2024 issue. For example, if 10 million people watch the program, that

would mean that many citizens recognize that the inability to deliver goods due to a shortage of drivers is an issue that needs to be resolved. Under a system known as impact investing, this will be reflected in stock prices. It's not enough to just raise the issue; we will invest in the companies that are working hardest to solve that problem. Looking at the example of Seino HD, I feel that we are entering an era in which actively raising issues in society and building

consensus can help increase stock prices.

- **Taguchi:** It would be great if we could achieve the "3Ks" of impact investing: making it visible, generating interest, and increasing share prices.

Finally, Taguchi-san, please tell us what Seino HD will be working on for impact creation in the future, and li-san, Abe-san, please tell us what you expect from Seino HD as Commons Impact Fund.

“ It is important to break down the elements of impact creation and raise the resolution through dialogue with investors. ”



- **Taguchi:** We are involved in commercial logistics, but I think we will be moving into commercial transactions in the future. If you want to increase efficiency for goods transport, you need to have a certain amount of inventory. However, for customers, holding inventory is inefficient. Seino HD aims to address that. You can increase efficiency even further by handling other companies' tasks at the same time. This would reduce deliveries to rural areas from daily to once a week, but would allow the total volume of deliveries to remain the same as before. We hope to use this system to increase efficiency and further address customer and community problems.

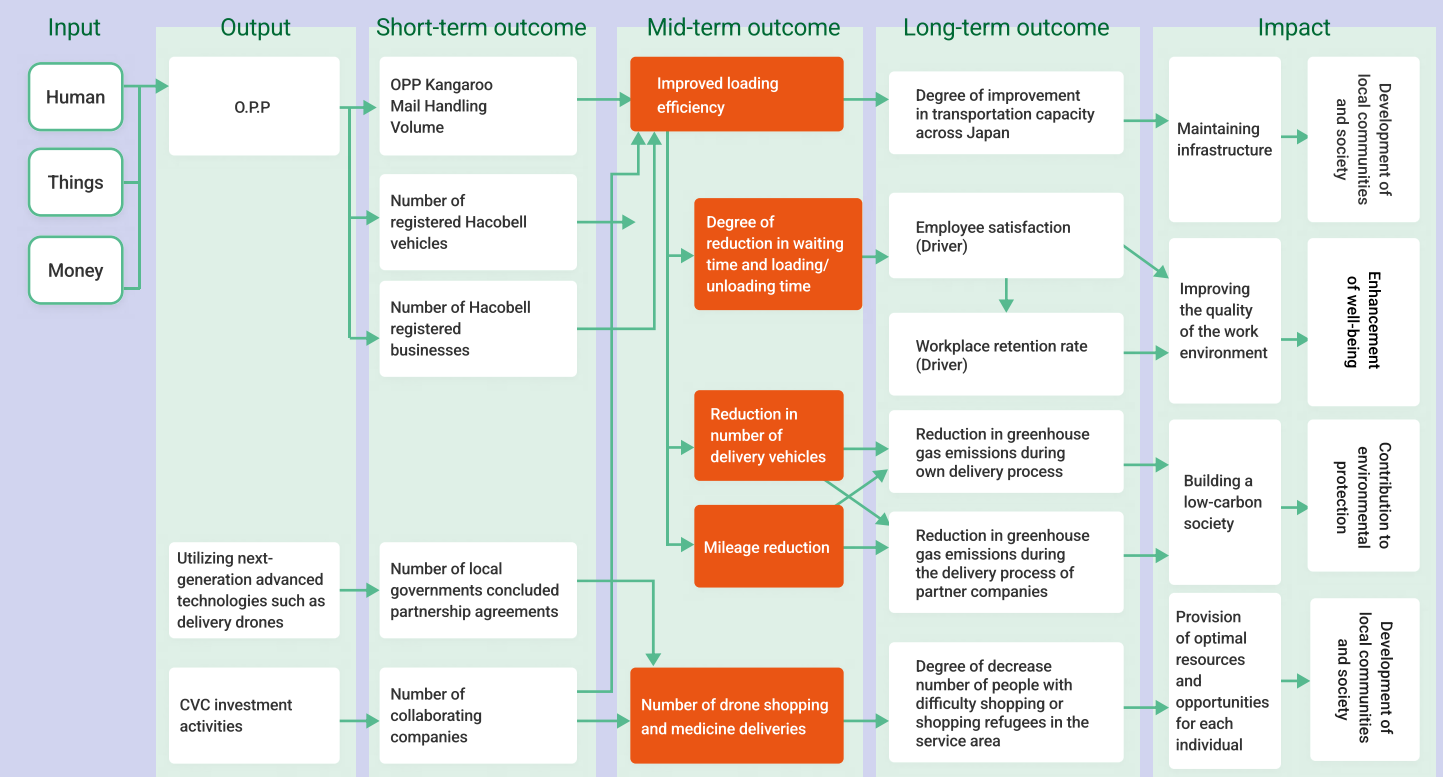
- **Ii:** The asset owner at the top of the investment chain (Japan Post Insurance) has signaled that they want funds to be used for investments aimed at realizing an ideal society. Our job is to ensure that funding flows to companies that are committed to creating impact. To further strengthen this, we will receive feedback from both financial and social issue perspectives, such as Ridilover.

With the population and number of companies declining, logistics is facing major structural challenges. I believe that Seino HD's efforts in this regard are among the best among all logistics companies I have observed. We would like to continue providing strong financial support.

- **Abe:** I think that inflation and a decline in local population will further complicate goods delivery. In this situation, I believe that how we prevent people from being deprived of essentials due to failed deliveries will largely depend on whether Seino HD can achieve the medium-term outcomes of its logic model.

Furthermore, if Seino HD achieves the medium-term outcomes in the logic model, its business value will naturally increase, allowing it to continue maintaining a premium over the average stock price in the delivery and logistics industry. I hope to help realize a situation where Seino HD's share price is 30% to 40% higher than the logistics industry's average, thanks to the company's greater progress in its medium-term outcome figures compared to others.

“The investment in Seino HD, which raises region-specific issues through dialogue, will redefine the standard for impact investing, originating from Japan.”



ALTRUISTIC LONG-TERM INVESTMENTS

for next generations.

PART 05

Donation Program Report

Long-term Investment in Altruism for Future Generations

While impact investing continues to expand, we must acknowledge that some social challenges cannot easily reconcile solution-making with profit generation. These challenges require approaches outside market principles, such as charitable donations. Moreover, combining multiple complementary solutions enables optimal allocation of resources dedicated to addressing social issues.

2nd “Comorebi” (social impact program)

While investee companies contribute to our core goals of “Enhancement of well-being”, “Development of local communities and society”, and “Contribution to environmental protection”, some social challenges require additional support. Comorebi provides donations to organizations addressing these crucial gaps.

What is Comorebi program?

Commons Asset Management define impact investing as an investment that aims for both social and economic returns, achieving both the resolution of social issues and profits.

This fund aligns with Japan Post Insurance's core priorities. While our impact investments make significant progress, we recognize that some social challenges require additional support beyond traditional investment approaches. Named after the Japanese word for “sunlight filtering through trees,” Comorebi program embodies Japan Post

Insurance's vision of creating a warmer society by extending support to areas beyond the reach of conventional impact investing.

We view donations as investments in tomorrow, generating social returns for future generations. Through Comorebi program, we aim to address social challenges comprehensively, combining financial support with educational initiatives in partnership with Japan Post Insurance to raise awareness of critical social issues.

Selection Process for Donation Recipients

Our selection process begins with the designation of one focus area from our three priority themes. Based on the chosen theme, Commons Asset Management's internal committee identifies three qualified non-profit organizations as potential recipients. In the next phase, employees from both Japan Post Insurance and Commons Asset Management participate in a voting process to determine their company's recommended organization.

Following this employee input, a

selection committee convenes to make the final decision. This committee includes external experts and representatives from both Japan Post Insurance and Commons Asset Management. The total donation amount, which comprises approximately 1% of the trust fee, is distributed among the three finalist organizations. The selected primary recipient receives 80% of the total grant, while the remaining two organizations each receive 10% of the allocated funds."



IMPACT
MEASUREMENT
from representatives and managers of the 3 companies

Previous Donation Recipient Activity Report



3Keys (Certified Nonprofit Organization)
Executive Director: Takae Moriyama
Established: 2007
Certified as an NPO by the Cabinet Office on May 30, 2011
Granted certified NPO status by the Tokyo Metropolitan Government on March 21, 2017"

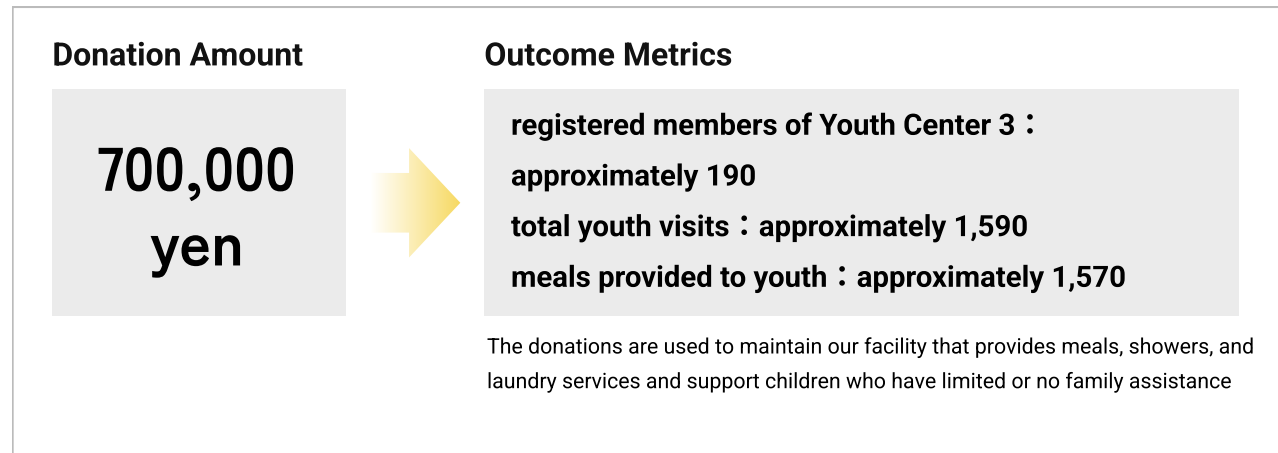
■ Vision

No Child Can Be Neglected

Certified Nonprofit Corporation 3keys will make sure all children’s rights are guaranteed in an environment in which they were born and raised.

Social Issues to Address

The current situation of children in Japan is becoming serious. There are child issues such as child abuse, child poverty, and child isolation. However, in Japan, an aging society, the budget for education and welfare / social security for children is small. Also, education and affection for children is based on the awareness and abilities of individuals surrounding children such as parents and teachers. Depending on what kind of family and environment they are raised in, there is a big difference in the education and affection that children can receive. We aim to be a society where we can all receive sufficient education and affection. It also means the rights of all children are guaranteed, no matter what environment we are born and raised in.



Ways to Engage and Support

We welcome opportunities to share our expertise through speaking engagements at your corporate events and workshops. Your company can also support our mission by hosting charitable vending machines in your facilities or organizing employee-driven donation drives for essential items like computers, books, and educational materials. These diverse engagement options allow your employees to actively participate in social impact initiatives while supporting our cause.

About Second Donation Recipient

This year's donation focuses on parent and child well-being, one of our key priorities within the “Enhancement of well-being”. Commons Asset Management's internal committee has nominated the following three organizations:

The Three Nominated Organizations

General Incorporated Association

“Aokusa no Hara”

<https://aokusa.or.jp/>
Executive Director: Kotoko Fujita
Services: Operates respite care and temporary housing facilities supporting both parents and children.

Non-profit Organization Weeds

<https://we-ed-s.com/>
Executive Director: Ayumi Mitsumoto
Services: Supporting children affected by parental divorce or separation.

Choiceful Association

<https://www.choice-ful.or.jp/>
Executive: Taisei Kurino
Services: Supporting children facing economic hardship through food assistance and community spaces.

Internal Selection Process: Employee Voting Results from Japan Post Insurance and Commons Asset Management

Both Japan Post Insurance and Commons Asset Management conducted internal votes to determine their recommended organizations. At Japan Post Insurance, voting was conducted through the company's internal portal, with broad participation across the organization. Employees from headquarters, service centers (5 insurance processing centers nationwide), regional

headquarters (13 locations), and local branch offices participated in the selection process. Commons Asset Management took a deliberative approach, conducting an initial employee vote followed by group discussions, then holding a final vote to determine their recommendation. The recommended organizations from each company are as follows:

Japan Post Insurance - Recommended Organization

Employee's Reasons for Recommendation (excerpt):

- Upon learning about the 'accessibility gap' - where individuals are excluded from support programs based on eligibility - she felt compelled to contribute.
- As a single mother who often found herself ineligible for single-parent support programs due to various requirements, she deeply resonated with the organization's mission.

Choiceful Association

Commons Asset Management - Recommended Organization

Employee's Reasons for Recommendation (excerpt):

- Their distinctive approach of deliberately choosing food assistance as a means to proactively reach out to those who lack access to support systems.
- Their commitment to building relationships with struggling families, and their dedication to helping those who cannot speak up or take action themselves - despite this approach being potentially less efficient."

Choiceful Association

Donation Selection Committee Meeting



<External Members>
 Toshiki Abe, CEO, Ridilover Inc.
 Yasuhisa Yamada, Managing Directors and Executive Officers, Japan Center for NPO Evaluation

<Japan Post Insurance>
 Junko Koie, Managing Executive Officers

<Commons Asset Management>
 Tetsuro Ii, Representative Director and President
 Teruyuki Furukawa, Investment Department/Analyst

The Donation Selection Committee met on September 4, 2024, to evaluate organizations recommended by Japan Post Insurance and Commons Asset Management. During the discussions, members noted the distinctive characteristics of the candidate organizations among children's support groups and examined their specific areas of expertise. Concerns were raised about the concentration of candidate activities in Tokyo, prompting suggestions to consider organizations operating in other regions. The committee also addressed the challenge of

establishing unified evaluation criteria, given the varying levels of information disclosure among organizations, particularly regarding their operational phase, unique challenges, and solution effectiveness.

Following the discussion, a vote was held. Choiceful Association received the majority of votes and was selected as the primary recipient, receiving a donation of 700,000 yen. The other finalists, Aokusa no Hara and Weeds, each received 80,000 yen.



About Choiceful Association

Choiceful Association was established in 2021 with the mission of creating a society where children facing socioeconomic challenges can access abundant 'choices.' The organization was founded by a director who grew up in an underprivileged household, motivated by witnessing his younger sister's inability to pursue desired educational opportunities due to financial constraints. This personal experience drove them to

create an organization that makes life choices more accessible to those in need.

The organization addresses the disparity in choices available to struggling families through two main initiatives: a food delivery service that builds connections with isolated low-income families, and community spaces centered around children's cafeterias that foster trust-based relationships.



Message from Mr.Kurino, Executive of Choiceful Association

We plan to allocate this donation toward personnel costs for our community space coordinators and social workers. While existing grants rarely cover staff expenses, we believe human connection is essential to our mission. It is through these personal interactions that we can build trust with families while providing food assistance, enabling us to understand and address their underlying concerns.

Third and Fourth Period Performance Report

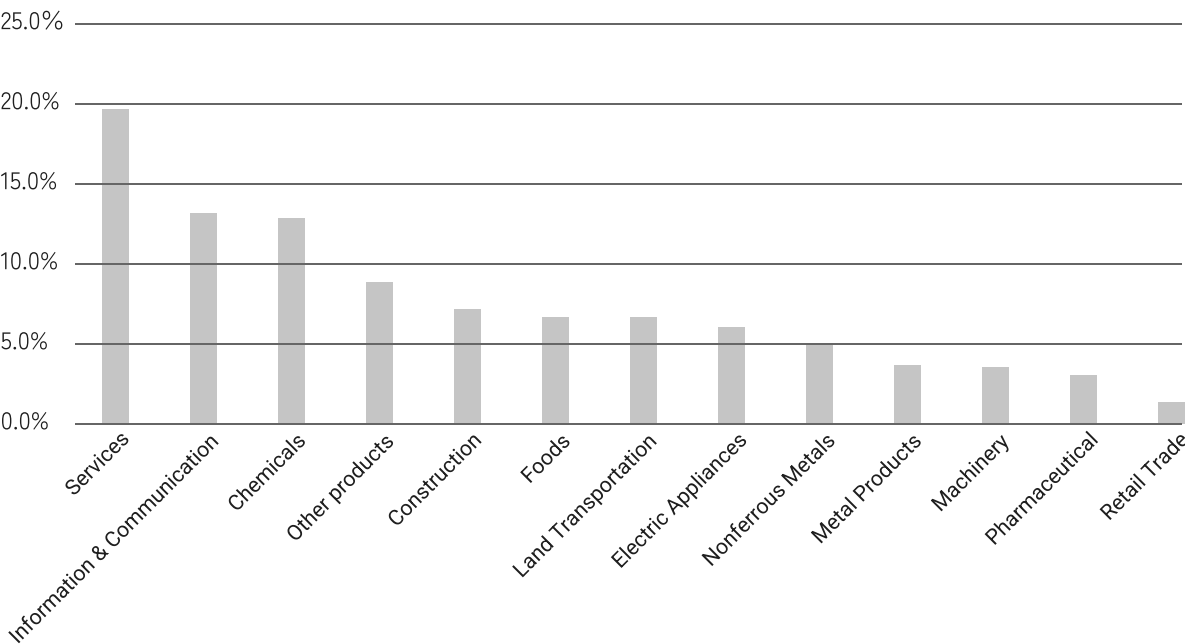
20th June 2023~18th June 2024

	1st	2nd	3rd	4th	1st~4th
Fund's Rate of Return	17.11%	11.89%	-9.21%	8.73%	29.18%
Reference index rate of return	3.56%	20.07%	2.26%	18.63%	50.85%
Gap	13.55%	-8.19%	-11.46%	-9.91%	-21.67%

Changes in the base price

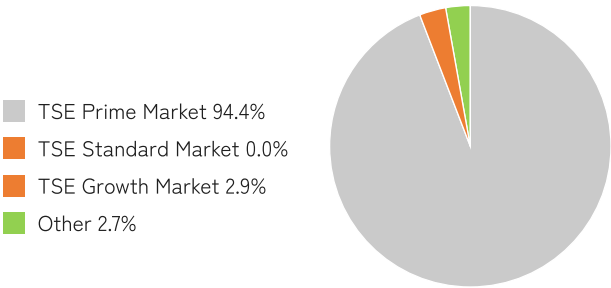


Composition ratio of each industry sector



ToC-aligned theme item	Stock Name
1.Realizing diverse work styles/Empowering individual	SHIFT, Recruit HD, and two other companies
2.Realizing individually optimized education	one company
3.Reducing the burden of nursing care, housework, and childcare	three companies
4.Promoting employment and social advancement of people with disabilities	SPool, LITALICO, and two other companies
5.Achieving gender equality	Unicharm and one other company
6.Improving medical care and hygiene, and taking measures against infectious diseases	Eisai and three other companies
7.Extending healthy lifespan	Ajinomoto and four other companies
8.Ensuring business continuity for small and medium-sized enterprises and sole proprietors	Moneyforward, Laksul
9.Maintaining local communities through supporting local governments, etc	Seino HD and one other company
10.Reducing GHG emissions	Sumitomo Forestry, Rinnai, Seino HD and two other companies
11.Building a circular society	UACJ, Unicharm and three other companies
12.Supplying renewable energy	---

Composition Ratios of Portfolio Stocks by Market



Overview of three companies



JAPAN POST INSURANCE Co., Ltd.

Established: October 1, 2007
 Capital: 500 billion yen
 Director and Representative Executive Officer: Kunio Tanigaki
 Investment policy: Investment that conveys the warmth that is characteristic of Japan Post Insurance through "improving well-being," "developing the community and society," and "contributing to environmental protection"
 Address: Otemachi Place West Tower, 2-3-1 Otemachi, Chiyoda-ku, Tokyo 100-8794
 TEL: 03-3477-0111

As a universal owner managing a wide range of long-term assets, and in fulfilling its social responsibilities to stakeholders, Japan Post Insurance aims to realize a sustainable society and improve long-term investment results. We incorporate ESG factors into investment and lending decisions for all managed assets, and when doing so, we comprehensively evaluate the ESG efforts of the investee companies and asset managers alongside their financial information.

In 2022, in order to expand impact-oriented investments and loans, Japan Post Insurance launched the "Impact "K" Project," a unique investment framework. In addition to this fund, we are also addressing the issue of children on waiting lists by attracting quality childcare facility operators through real estate fund investments.



Commons Asset Management Inc.

Established: November 6, 2007
 Capital: 100 million yen
 Representative Director, President and Chief Operating Officer: Tetsuro Ii
 Address: 16th floor, Pola Aoyama Building, 2-5-17 Minamiaoyama, Minato-ku, Tokyo 107-0062
 TEL: 03-5860-5724

Commons Asset Management is a front-runner in selecting stocks and engaging with management teams incorporating non-financial information like ESG, and has consistently contributed to improving long-term corporate value since its founding. We also undertake various initiatives toward realizing a sustainable society, such as holding seminars for future leaders and donating a portion of our trust fees to social entrepreneurs. Commons Asset Management selects investment targets based on the perspective it has cultivated over many years. We will also work with Ridilover Inc. to evaluate the impact created by our investee companies via dialogue.



Ridilover Inc.

Established: March 28, 2013
 Capital: 23.27 million yen
 Representative Director: Toshiki Abe
 Address: 2nd floor, Iguchi Building, 3-9-1 Hongo, Bunkyo-ku, Tokyo 113-0033

Ridilover Inc.'s mission is to 'break down social indifference' and has tackled over 400 social issues to date. We are challenging ourselves to quickly find solutions to social issues by developing businesses that 'discover problems', 'socialize problems', and 'invest resources' in social issues that everyone should solve together. Specifically, we are involved in educational travel businesses, corporate training, business development, and policy planning that invest resources in solving social issues. We also run 'Ridilover Journal,' an online media that communicates issues through interviews and surveys in a structured and easy-to-understand way, drawing the interest of more people. In collaboration with Commons Asset Management Inc., the fund will conduct structural analysis of the social issues its investee companies are addressing, evaluate their business outcomes, and prepare impact reports.



Editor’s note

We are pleased to announce the publication of the Commons Impact Fund's second annual report. Domestic impact investments have seen a significant increase in their managed balance since last year, attracting great interest from society. This report introduces the society our fund seeks to create, its raison d'être as a listed equity impact fund, and the intention behind our IMM methodology utilizing “structuring social issues”. We are also publishing, for the first time, a roundtable discussion with a portfolio company. We hope you will find this report insightful regarding the future relationships between investors and companies working to solve social issues.

Finally, we would like to sincerely thank Japan Post Insurance, Commons Asset Management, and all other parties involved, including investee companies, for their tremendous cooperation in compiling this report.

Ridilover Inc. - Commons Impact Fund staff (Shuhei Kanke and Takanori Tsutsui)

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Planning and production	Ridilover Inc. https://ridilover.jp/ 2F Iguchi Bldg., 3-9-1 Hongo, Bunkyo-ku, Tokyo 113-0033, Japan

