

ESG Disclosure and Engagement

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Introduction

The trend toward “environment, social, and governance” (ESG) considerations playing a part in investment decisions has strengthened over recent years, especially among pension funds and other institutional investors. Along with the rise of ESG investment, whereby investors consider non-financial ESG information as well as financial information when valuing the companies they invest in, companies are being called on to enhance their information disclosure and to operate their businesses with a view to the medium to long term, including non-financial considerations, more than they have in the past.

Hitachi, Ltd., meanwhile has been providing investors and other stakeholders with its own ESG information in forms that include its Integrated Report and Sustainability Report.

Growth of ESG Investment

Total global ESG investment⁽¹⁾ reached approximately USD 30,683 billion (approximately JPY 3,418 trillion) in 2018, a 34% increase over the previous survey in 2016 (see [Table 1](#)). Similarly, ESG investment rose from 26.3% to 33.4% of total global investing assets over this period (see [Table 2](#)).

While the level of ESG investment in Japan remains low in terms of the total sums involved, as a percentage of total managed assets it has risen from 3.4% in 2016 to 18.3% in 2018 (see [Table 2](#)). Among the factors behind this rapid growth in Japan was that ESG investment suddenly became more widely used as a result of the Government Pension Investment

Table 2 | ESG Investment as a Percentage of Total Managed Assets (by Region)

Nation or Region	2016	2018
Europe	52.6%	48.8%
USA	21.6%	25.7%
Canada	37.8%	50.6%
Australia /New Zealand	50.6%	63.2%
Japan	3.4%	18.3%
Total	26.3%	33.4%

ESG: environment, social, and governance
Source: Global Sustainable Review Investment Review 2018

Fund becoming a signatory to the United Nations’ Principles for Responsible Investment in 2015, followed in 2017 by it announcing its choice of ESG indices and the commencement of passive index-linked investment.

Hitachi's Disclosure of Non-financial Information

The regular publication of non-financial information by Hitachi on a voluntary basis began in 1998 with the issuing of its Environmental Report. Renamed the Environmental Sustainability Report in 2003, it dealt with environmental activities from the perspective of corporate social responsibility (CSR) and added reporting of social activities such as how the company contributes to society through its business, its support for education in the local community, volunteer programs, and so on. It became the CSR Report in 2005 as part of CSR promotion across the entire Hitachi Group, evolving into a systematic report that presented an overview of CSR activities in three sections: CSR management systems, community engagement, and environmental activities. Along with the CSR Report, a separate Environmental Sustainability Report was also published in 2009 and 2010 to cover environmental activities in detail. The CSR Report and Environmental Sustainability Report were combined from 2011 onwards and published as the Sustainability Report (see [Figure 1](#)).

Up until 2013, the Sustainability Report addressed a wide range of stakeholders, including customers, suppliers, experts, staff, local residents, ESG rating agencies, and investors. Nowadays, however, because ESG rating agencies and institutional investors that evaluate companies on the basis of disclosed information do so using information on topics such as ESG strategies, organizational structures, activities, objectives,

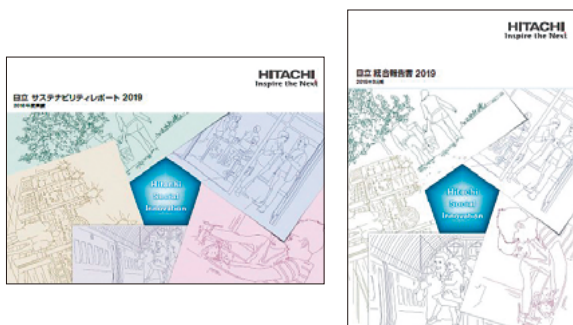
Table 1 | Global ESG Investing Assets

Nation or Region	Asset values (billion USD)	
	2016	2018
Europe	12,040	14,075
USA	8,723	11,995
Canada	1,086	1,699
Australia /New Zealand	516	734
Japan	474	2,180
Total	22,890	30,683

Note: Asset values are expressed in billions of US dollars at the exchange rates as of year –end 2015 (2016 numbers) or at the time the report was published (2018 numbers)

Source: Global Sustainable Review Investment Review 2018

Figure 1 | Hitachi Sustainability Report 2019 and Hitachi Integrated Report 2019



Hitachi Sustainability Report 2019:
<http://www.hitachi.com/sustainability/download/index.html>
 Hitachi Integrated Report 2019:
<http://www.hitachi.com/IR-e/library/integrated/2019/index.html>

and actual performance, this information is published on a website targeted at ESG rating agencies and medium- to long-term institutional investors (see Figure 1).

Hitachi also has published an Annual Report for shareholders that primarily contains financial information. This document has been called the Integrated Report since 2016 and is targeted at institutional investors. The Hitachi Integrated Report 2019 was prepared based on rules such as the

International Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC) and the “Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation (Guidance for Collaborative Value Creation)” of the Ministry of Economy, Trade and Industry (see Table 3).

The Hitachi Sustainability Report 2019 was reformatted to have environmental, social, and governance sections. It also used icons to indicate whether the reporting in each item related to the “policy,” “frameworks and systems,” or “objectives, activities, and achievements” category. Hitachi also strives to improve the information it provides each year on the topics that ESG rating agencies want covered.

The environment section has adopted the improvements in information disclosure recommended by the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board. The information on climate change risks and opportunities provided in past reports was reformatted to present this information for each of the four elements highlighted by the TCFD (governance, strategy, risk management, and metrics and targets), and information was also provided on analyses of five businesses identified as having a comparatively high probability of being affected by

Table 3 | Publication Purpose, Readership, and Other Details of Hitachi Integrated Report and Hitachi Sustainability Report

Item	Hitachi Integrated Report	Hitachi Sustainability Report
Purpose	<ul style="list-style-type: none"> Investment and holding of shares for medium to long term Acquiring faith and hope in the future (voluntary disclosure) 	<ul style="list-style-type: none"> Adoption of ESG indices External ESG evaluation and score improvement (voluntary disclosure)
Positioning	<ul style="list-style-type: none"> Report on sustainable medium- to long-term corporate growth 	<ul style="list-style-type: none"> Report on sustainability (ESG) management, comprehensiveness
Framework and guidelines, etc.	<ul style="list-style-type: none"> International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation of the Ministry of Economy, Trade and Industry 	<ul style="list-style-type: none"> GRI standard ESG index survey items
Main readership	<ul style="list-style-type: none"> Medium- to long-term (ESG) institutional investors (asset owners, asset managers, securities analysts) 	<ul style="list-style-type: none"> ESG rating agencies, ESG index providers Medium- to long-term (ESG) investors
Main content	<ul style="list-style-type: none"> Values Business models Medium- to long-term vision, growth strategy (strategy for financial and non-financial capital) Risks and opportunities in executing strategy 	<ul style="list-style-type: none"> “Policy,” “frameworks and systems,” and “objectives, activities, and achievements” relating to “Environment, Social, and Governance” Third-party verification of some data
Formats	<ul style="list-style-type: none"> PDF available from Hitachi website (Japanese and English) 	<ul style="list-style-type: none"> PDF available from Hitachi website (Japanese and English) The Chinese-language version is edited to include material relevant to the China region.

GRI: Global Reporting Initiative

Figure 2 | Summary of Hitachi's First ESG Briefing and Scenes from the Event

Date & participants	Date: September 24, 2019 Participants: Approximately 100 people including institutional investors, analysts, ESG rating agencies, and the news media		
Topics	<ol style="list-style-type: none"> 1. CEO Remarks: President & CEO Toshiaki Higashihara 2. Environment (E): Vice President and Executive Officer Osamu Naito on Initiatives Hitachi Environmental Innovation 2050 and creation of environmental value 3. Social (S): Senior Vice President and Executive Officer Hidenobu Nakahata on Hitachi HR strategy as an enabler to deliver social value 4. Corporate governance (G): Independent Director Hiroaki Yoshihara on governance at Hitachi 		

ESG Briefing: <http://www.hitachi.com/IR-e/library/presentation/webcast/190924.html>

climate change, these being conducted for both 2°C and 4°C warming scenarios.

ESG Engagement

In the ESG sector and elsewhere, the introduction of the Stewardship Code* has been accompanied by greater engagement by institutional investors in ESG improvements, including through dialogue with the companies they invest in and the exercising of their voting rights. In addition to the dialogue on corporate governance that has been taking place from FY2017 to the present day, Hitachi receives several requests a year in Japan and from elsewhere to engage in dialogue on environmental and social initiatives.

The last few years have also seen a growing number of firms holding ESG briefings or small meetings on the topic as part of its investor relations (IR) work, especially in Japan.

Hitachi, meanwhile, wanting to show the commitment to sustainability of the company's senior leader (President & CEO) and the directors who supervise operations, chose to host its first ESG briefing in 2019. The briefing focused on management thinking that seeks to take advantage of management practices that consider long-term value creation in partnership with shareholders and other investors by opening itself to direct assessment by stakeholders.

President & CEO Toshiaki Higashihara spoke first at the ESG Briefing. After explaining how ESG relates to the 2021 Mid-term Management Plan and presenting the session's key points, he was followed by Vice President Osamu Naito,

who gave the environmental part of the briefing on Hitachi Environmental Innovation 2050 and creating environmental values. This in turn, was followed by the society-themed briefing by Senior Vice President Hidenobu Nakahata, on Hitachi human resource strategy as an enabler to deliver social value, and the corporate governance briefing by Independent Director Hiroaki Yoshihara, on governance at Hitachi (see Figure 2). The forthright briefings from management about ESG activities received a largely favorable response from the 100 or so institutional investors, analysts, reporters, and others who attended the event. There were also numerous questions and comments that addressed subjects such as expectations for Hitachi management from a long-term perspective.

With reference to the views obtained from the event, Hitachi intends to continue taking action across the Hitachi Group on the creation of social, environmental, and economic value over the medium to long term, and management practices that consider risks and opportunities. Hitachi also intends to maintain dialogue with stakeholders through the appropriate disclosure and presentation of information on these matters.

Reference

- 1) Global Sustainable Investment Alliance, "Global Sustainable Investment Review 2018" (2019), http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

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Current work and research: Information disclosure and engagement relating to sustainability.

* A code of conduct for institutional investors introduced by the UK government to improve corporate governance