

ESG Initiatives as a Strategic Investment Holding Company

As a strategic investment holding company engaged in global investment activities, we are working to integrate ESG factors into our investment process in order to enhance the sustainability of our investment activities. In this report, we invited Akitsugu Era, Managing Director and Head of Investment Stewardship at BlackRock Japan Co., Ltd., one of our shareholders and the world's largest asset manager, and discuss the requests and expectations he has for us as a shareholder, and how we should approach ESG as an investment company.



Akitsugu Era

Managing Director,
Head of Investment Stewardship
BlackRock Japan Co., Ltd.

Yotaro Agari

Global Head of Investor Relations
SoftBank Group Corp.

Reiko Oda

Head of Sustainability Promotion Group,
General Administration Department
SoftBank Group Corp.

Behind the Fink Letter

Agari: The Fink Letter, in which your CEO Larry Fink sends a message to the CEOs of the companies you invest in, attracts global attention every year. As an investee of your company, we also read the letter each year, and it seems that in recent years, he has mentioned ESG in the letter more frequently. Could you tell us what's behind this?

Era: We have been sending the Fink Letter since 2012. While the key topics of the letter vary depending on the socioeconomic situation at the time, the core message remains consistent that "we are committed to supporting long-term corporate value creation."

When we first started sending out the Fink Letter, we were concerned, especially in the U.S., that companies were focusing too much on the short-term outcome and that is hindering the long-term value creation of companies. Rather than engaging in excessive share buybacks and distribution of profits through dividends, companies should be making investments for the growth opportunities and their employees, from a long-term perspective. Investors should also navigate and support the companies from a long-term perspective. These are

ESG Initiatives as a Strategic Investment Holding Company

thoughts in the background regarding what led to prepare the annual Fink Letter.

Since the message emphasizes topics related to long-term view, there have naturally been more references to ESG in recent years. We focus on role of the board of directors in articulating long-term strategy, how they are emphasizing the importance of purpose, how they are adapting its business to prepare for the impacts of climate change risks and opportunities, the energy transition and the changes in society. The reason behind an issuance of the Fink Letter is to express our thoughts on what we believe is important, and what might represent risks and opportunities in long-term value creation. It is also to understand the plans and thoughts from the companies' leaders.

Long-term value creation of the SoftBank Group

- Era:** In terms of long-term value creation, more than 10 years have passed since the announcement of the SoftBank Group's "Next 30-Year Vision"*1 in 2010. What do you think has been the major progress or changes?
- Oda:** In the "Next 30-Year Vision," we reaffirmed our corporate philosophy of "Information Revolution — Happiness for everyone." In addition, we have announced to become a company that will grow for the next 300 years as a corporate group needed most by people around the world, by forming partnerships with the most outstanding companies at the time in

the information industry, without focusing on particular technologies or business models.

This was a way of articulating our attitude towards sustainability, as it conveyed the importance of thinking about social trends on a 100-year basis, rather than on a 10- or 20-year basis, and of always keeping abreast of changes in the world and continuing to be the most indispensable company in each situation. In this respect, the vision itself is a long-term one, and remains unchanged in more than 10 years.

At the time of the announcement, we had a stronger focus on telecommunications, and I think there was a sense that we would continue to make a difference in society through a focus on the IT and telecommunications industry. However, as we explained at this year's General Meeting of Shareholders under the key phrase "a capital provider driving the Information Revolution," we are now shifting in the direction of becoming a good advocate of superior technologies and business models in the information industry and realizing our vision as an investment company.

- Agari:** Our CEO Son sometimes looks back and says, "Things are happening more or less as I expected, but at a faster pace," and I also feel that he is becoming increasingly confident about our vision. 10 years ago, I think we were a hybrid telecommunications company investing in the internet domain. Today, the telecommunications business is part of our portfolio, and the company is increasingly becoming an investment company. We are investing in areas that will accelerate innovation to enrich people's lives based on AI, such as healthcare, fintech, and robotics. We are now

realizing what we set out to achieve in our "Next 30-Year Vision," and I believe we are developing our business in line with this vision.

Integrating ESG into the investment business in the SoftBank Group

- Era:** In May 2021, there was an announcement that the SoftBank Group would integrate environmental and social factors into the investment process. What is the reason behind this decision?
- Agari:** In the past few years, we have been receiving more and more questions in our dialogues with investors about how we integrate ESG into our investment process as an investment company. Actually, we have invested in many companies that make positive changes in terms of the environment and society. To take advantage of these traditional strengths of our



*1 See our corporate website for further details of "Next 30-Year Vision."

ESG Initiatives as a Strategic Investment Holding Company

company, we decided that we should adopt a more organized approach. Our investment may have been seen as something carried out based on our instincts and intuition, but through our discussions with our management team, we decided it is important to establish a clear system for evaluating the risks and opportunities associated with environmental and social factors in the investment process, and explain it to our stakeholders.

Era: So, the step was mainly to increase transparency of the investment process, rather than drastically shifting to a new investment approach. What are the key points in evolving this process further?

Oda: Currently, we are analyzing what are the key risks and opportunities among the environmental and social factors in each investment area. However, creating a massive playbook won't help you in the real world, and we do not want to create complicated processes that prevent speedy decision-making, which is one of our strengths. Our goal is to create a simple, yet powerful tool that will help to



identify the risks and opportunities associated with the environmental and social factors in the business models of potential investments and clarify the issues that we should support after the investment.

There are various approaches and methods of integrating ESG into the investment process. We need to find our best practices through trial and error.

Agari: Although risks are common to a certain extent, opportunities vary depending on the business model, so we need to take a close look at the market needs.

Era: It has never been more important to achieve the right balance between economic returns and social returns, both at a high standard. This is easier said than done, and as the world becomes more complex, it is becoming increasingly challenging. A company who does a good job in managing this balance will be successful and will be evaluated highly, companies who fail to achieve this balance will be evaluated poorly. We understand that this is a very high expectation, and this is why we would like to be a partner in this value creation process.

What BlackRock looks for in engagement

Agari: As an investor, what are some of the things you focus on when engaging with your portfolio companies?

Era: Our engagement focuses on topics that are important in pursuing long-term sustainable value creation. This would include, for example, corporate philosophy, vision, and awareness of sustainability. And how these elements are deeply embedded



throughout the company, including the management team and all employees. For example, sometimes even for a company whose public disclosure seems comprehensive, when we ask questions about the details of their efforts in sustainability, the only person who can answer those questions is the direct person in charge. On the other hand, there are also cases where the top management is very conscious and passionate about explaining the company's approach to long-term value creation including sustainability efforts, even though the public disclosure appears to be limited. This is why we place an importance on qualitative information obtained through engagement, which sometimes cannot be fully understood if you only look at ESG ratings and public documents. We also share these insights achieved from our engagement internally with our portfolio managers.

Another point to emphasize is that we believe the materiality of ESG and factors vary depending on the business model, region, and

ESG Initiatives as a Strategic Investment Holding Company

society. Therefore it is important to pay attention to how the world is evolving in order to understand the background, respective situation and context, which is not an easy task.

Oda: I can relate to what Mr. Era said about focusing on qualitative aspects. We are currently working to integrate what we have done qualitatively in the investment process into a structure and framework. However, we also understand that sometimes intuition is correct, and that there are situations that are difficult to measure with a uniform standard.

How we strike a balance between these two will be important for us going forward.

Expectations for the SoftBank Group from BlackRock as a shareholder

Oda: Lastly, as our shareholder, do you have any requests or expectations for us?

Era: From an investor's point of view, I think a continuous effort to enhance transparency on how the SoftBank Group is achieving the right balance between offense and defense is extremely important. In other words, how the company is balancing risk management, while making sure it is not missing out on new business opportunities.

Strengthening the form of corporate governance is very important to investors. However, I believe it is even more important to make sure that a company has established a management system that is focused on long-term value creation, and simultaneously has an effective governance system in place to support that value creation. I think it would be a good idea for the SoftBank Group to

clearly articulate the most important matters to your company, the philosophy and values, and what do you see as the right balance between management and governance, without taking a one size fits all approach. To do so, it might be helpful to explain how your company's DNA and corporate culture drives such value creation.

Agari: It is true that Son's ideas, energy, and leadership are part of our strength, and also our corporate culture is not to avoid risks and minimize failures, but rather to embrace some risks and failures, and take on challenges in a way that does not strictly adhere to conventional wisdom. On the other hand, our company has strong defensive aspects to our approach, and our culture is strongly based on the idea that what's wrong is wrong, and to correct failures immediately once found. In addition, active discussions are held at each Board of Directors meeting, and we receive frank opinions from External Board Directors from their respective expert perspectives. In the future, we may need to make sure to include these aspects in our communication when we talk about the state of our governance.

Oda: We understand that it is important to build a system, take essential actions, and disclose information with a focus on our strengths and importance of the company. We would take into account these perspectives as an investor and engage in essential communication with our portfolio companies. Thank you very much for your valuable comments.



Akitsugu Era

Managing Director,
Head of Investment Stewardship
BlackRock Japan Co., Ltd.

As Head of Investment Stewardship in the Investment Division, Mr. Era is responsible for the exercise of voting rights for Japanese companies addressing corporate governance issues, and established policies and guidelines for the exercise of voting rights. He joined BlackRock Japan in 2011. Prior to joining BlackRock, he worked as a corporate governance manager and fundamental equity analyst at Nikko Asset Management from 2006. In addition, he served as the president of an Internet-related company he founded for seven years from 1999. He has also participated in a number of external working groups related to corporate governance, including those of the Japan Business Federation (Keidanren) and the Ministry of Economy, Trade and Industry. Furthermore, he has contributed to the Ito Review of "Competitiveness and Incentives for Sustainable Growth – Building Favorable Relationships between Companies and Investors –," led by the Ministry of Economy, Trade and Industry.

[See the official website for the company's details of "BlackRock Japan Co., Ltd." \(available only in Japanese\).](#)

Disclaimers

This report provides relevant information about the Group and does not constitute or form any solicitation of investment, including any offer to buy or subscribe for any securities in any jurisdiction.

This report contains forward-looking statements, beliefs or opinions regarding the Group, such as statements about the Group's future business and future position, including estimates, forecasts, targets and plans for the Group. None of the Group nor its management gives any assurance that the estimates expressed in these forward-looking statements will turn out to be correct, and actual results or performance could materially differ from expectations.

Inquiries

SoftBank Group Corp.

<https://group.softbank/en/contact>



SoftBank Group Corp.

<https://group.softbank/en/>

Copyright © 2021 SoftBank Group Corp. All Rights Reserved.