

August 2, 2021

## **Collective Engagement Case Example: Mitsui O.S.K. Lines**

### **Collective Engagement on Mitsui O.S.K. Lines' Responses to the Wakashio Incident**

The seven companies, namely The Dai-ichi Life Insurance, Meiji Yasuda Asset Management, Mitsubishi UJF Trust and Banking, Pension Fund Association, Resona Asset Management, Sumitomo Mitsui DS Asset Management, and Sumitomo Mitsui Trust Asset Management (in alphabetical order), the participants of the Collective Engagement Program presided by The Institutional Investors Collective Engagement Forum (hereinafter referred to as "IICEF"), with IICEF as secretariat, conducted a collective engagement with Mitsui O.S.K. Lines. (hereinafter the "Company").

The purpose of this collective engagement meeting is to share our participating investors' awareness and viewpoints of the Company's responses to the bulk carrier Wakashio grounding incident and the resulting oil pollution that occurred off the island of Mauritius in summer 2020, particularly from the perspective of their relevance to the Company's materiality and medium to long-term strategy, and to exchange opinions with the management of the Company. In February 2021, we sent a letter to the Company stating the participating investors' awareness of the problem and requests. With the understanding and cooperation of the Company, we held a collective engagement meeting in an online format in April 2021. The outline of the proceedings of the collective engagement meeting is provided below.

#### ■ **Outline of our letter message**

In February 2021, the participating investors and IICEF in our joint names sent a letter to President Junichiro Ikeda (currently Chairman of the Board) and Executive Vice President Takeshi Hashimoto (currently President) of the Company. The contents of the letter represent our agreement reached in advance through several discussions among participating investors. The purpose of the letter is to share our awareness and viewpoints as investors of the Company's responses to the Wakashio grounding incident and the resulting oil pollution, focusing particularly on their relevance to the Company's materiality and medium to long-term strategy, and to communicate our requests to the Company. The outline of the letter is provided below.

[Basic stance of investors]

We expressly stated and explained the following points:

- (1) Generally speaking, the occurrence of any serious incident that may affect the brand value of a listed company could impair its corporate value, and even when such a serious incident comes to light and the company's market value has dropped, passive investors and those who are engaged in stable investment for long-term asset owners would not necessarily sell their holdings.
- (2) As indicated in Principle 4-1 of Japan's Stewardship Code\*, when a serious incident occurs, it is beneficial for both the company concerned and investors to arrange collective engagement meetings.
- (3) Regarding the Wakashio grounding incident and the resulting oil pollution in particular, we as investors positively evaluate the responses of the Company as appropriate actions in that the Company has shown its plans to identify the cause and implement various response measures after clarifying the intention to take social responsibilities in this matter as a chartering party regardless of who has the primary legal responsibility.

[Requests to the Company]

After noting that we as investors have reviewed all of the Company's external communication about the Wakashio incident in and after August 2020 through press releases, various briefing sessions, the integrated report, etc., as well as the contents of the release published in December 2020 on the measures to identify causes and prevent recurrence, we explained that we continue to be keenly interested in the Company's responses to this matter. On that basis, we requested the following three points:

- (1) Statement of the view on management's commitment to continued disclosure and explanation  
(We requested the continuation of proactive disclosure and explanation going forward and asked about the management's view on continuous disclosure and explanation.)
- (2) Explanation of the management's view on the revision of materiality  
(We asked about any revision of materiality reflecting the incident, any expansion of scope or revision of priority by surveying the entire supply chain/value chain, and any possibility of revising related KPIs.)
- (3) Provision of an opportunity for engagement with the management of the Company  
(We requested that the Company consider arranging a collective engagement meeting rather than written communication to build a foundation for continued dialogue going forward.)

We stressed that the participating investors' aim of the proposed collective engagement meeting is to dispel the doubts and concerns of investors about the recurrence of similar incidents in the future rather than to express complaints about the incident that has already occurred or to condemn

the parties concerned.

## ■ Outline of the collective engagement meeting

After sending the letter, we received a reply from the Company indicating that it would consider such a collective engagement meeting positively. The Company's Corporate Communication Division and the IICEF secretariat coordinated the proceedings of the meeting in advance, and in April 2021, we held a collective engagement meeting in an online format for about 90 minutes to have a Q&A session and to exchange opinions.

[Attendees]

The Company: Toshiaki Tanaka, Senior Managing Executive Officer (Chief Environment and Sustainability Officer (CESO))

Hisashi Umemura, Executive Officer (CFO)

Yuko Shima, General Manager, Environment & Sustainability Strategy Division

Keiichiro Nakanishi, General Manager, Corporate Communication Division

Investor side: Representatives from the seven participating investors (head/senior officer of responsible investment division, person in charge of engagement, etc.)

Moderators: Directors in charge of IICEF

(The divisions, titles, etc., shown above are current as of the date of the meeting.)

[Preliminary Q&A on basic knowledge]

Investors had commented, "I want to know the basics about the contractual relationship and responsibility sharing among the parties concerned including the shipowner and the charterer (although it may be a common knowledge among the insiders of the industry or industry analysts)," and "It is difficult to understand how marine accidents are handled when I read media reports on the Wakashio incident or any other accidents that have recently occurred in the Suez Canal." In response to these comments, we held a preliminary Q&A session at the outset of the collective engagement meeting. The Company has prepared concise materials to answer these questions. According to the explanation of the Company, in standard cases, the shipowner lends the ship together with its crew and is solely responsible for ship operation, crew training, the arrangement of insurance, and accident handling. In rarer cases, the shipping company owes the responsibility as the shipowner if the ship is owned by the shipping company or operated by the crew provided by the shipping company. However, the latter cases do not apply to the Wakashio incident. This is a basic knowledge that is a prerequisite for further discussion, and the Q&A session was useful for investors not specialized in this industry.

[Main issues in the engagement]

We proceeded to discuss the issues that are considered important by investors. Examples of such issues are as follows:

- In this case, it is understood the Company proactively responded to the incident as an exception recognizing its social responsibility although it was not held legally responsible. If a similar incident occurs in the future, does the Company plan to respond in a similar manner?
- Although the public interest may wane as time passes, investors expect continued disclosure and updates on the progress of measures to prevent recurrence. What is the Company's policy on the provision of information?
- When the Company announced its corporate philosophy and management plan in early April 2021, it mentioned partial revision of its materiality. I would like to know the background of the Company's presentation of this idea. Is it related to the Wakashio incident?
- In determining the scope of materiality, the importance of the perspective on the entire supply chain and value chain will continue to increase. What is the management view in this respect?
- There seems to be room for further enhancement in the description of materiality in the integrated report.
- Wouldn't it have been possible to mitigate damage to the corporate brand if the provision of information in the initial stage of responses after the occurrence of the accident and subsequent communications with the media had been a little more appropriate? I have an impression that the corporate image was unnecessarily affected negatively by some of the overly critical media reports.
- While the Company responds to the incident sincerely, doesn't it lack the mindset to use it wisely to raise reputation?
- Unfortunately, I feel that the general public do not sufficiently recognize from media reports the fact that the Company responded in an exceptional manner out of social responsibility.
- What is the Company's attitude toward engagement with environmental NGOs?
- What are the job responsibilities of CESO?
- Have outside directors of the Company proactively expressed opinions on its responses? For example, what were their opinions and were they involved in the formulation of various measures?

At the close of the collective engagement meeting, Mr. Umemura, CFO, commented, "We could listen to frank opinions from the investors, from which we got some hint on the improvement of our disclosure attitude and explanations in the integrated reports."

[Feedback from participants]

After the close of the collective engagement meeting, we collected feedback from both the Company and the investors and shared them with both sides. From the attendees from the Company, we received many positive opinions about the opportunity to listen to frank opinions from the investors. There was also a comment that collective engagement meetings with a focused agenda such as this meeting would be useful.

From the participating investors, we received positive comments such as, “We learned a lot from the detailed explanation provided at the collective engagement meeting,” and “We expect the Company to continue to proactively provide information and engagement opportunities,” as well as opinions and comments to the effect that there is room for improvement in the manner of information provision, such as:

- While responding to the incident sincerely, the Company is encouraged to develop a mindset to use it wisely to raise reputation.
- For the purpose of maintaining and enhancing the corporate brand, it would be better to send a message that the Company will drastically revise its materiality leveraging the Wakashio incident rather than to explain that the revision of materiality is not directly linked to the Wakashio incident.
- During the engagement meeting, the Company did not mention the addition of “safety” in the recent revision of the MOL Chart, but I understand that the Wakashio incident was one of the factors behind it.

#### ■ Future challenges – concluding remarks

We believe that the view of the investors on potential room for improvement in the manner of information provision of the Company was clearly communicated to the attendees from the Company. Therefore, the investors will continue to observe the Company, expecting positive changes to happen in its disclosure and dissemination to investors.

Regarding the view that the materiality should be revised in a manner to expand its scope further (upstream and downstream along the supply chain and by incorporating the perspective of value chain in a manner to expand the range of vision), which was one of the important issues in this collective engagement meeting, we also have an impression that how seriously the investors emphasize this was successfully communicated to the Company. Regarding the specific revision of the Company’s materiality, we will continue to review the Company’s disclosure and dissemination

and seek another opportunity to share the opinions of the investors if necessary.

Most engagement activities by investors are not likely to be completed by producing results in a short term, but will deliver results only after building mutual understanding over a certain period of time. We will follow up the issues discussed at this collective engagement meeting as necessary at an appropriate timing, while continuing to review the contents of the Company's future disclosure and dissemination.

[Reference] URLs of the Company website:

1) The Company's Action towards the Wakashio Incident (Environmental Recovery and Social Contribution)

<https://www.mol.co.jp/en/sustainability/incident/index.html>

2) Home page

<https://www.mol.co.jp/en/index.html>

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\* Principle 4-1 of Japan's Stewardship Code stipulates "In case a risk of possible loss in corporate value is identified through the monitoring of and dialogue with companies, institutional investors should endeavor to arrive at a more in-depth common understanding by requesting further explanation from the companies and to solve the problem."