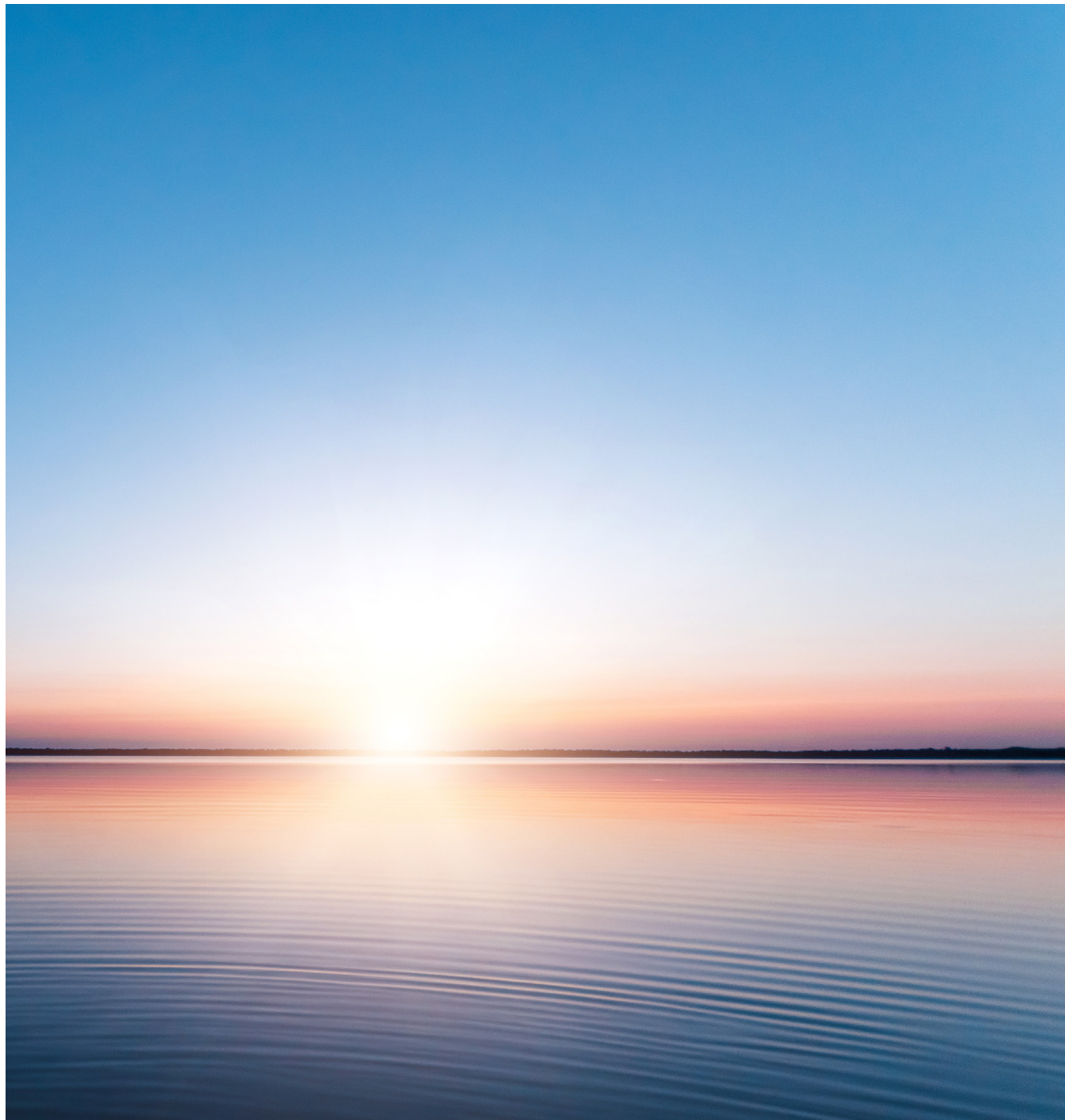

Polaris Capital Group Co., Ltd.

ESG REPORT 2024



CEO Message	03
Polaris' Initiatives	
1. Trajectory of ESG Initiatives	05
2. ESG in Private Equity Fund Management Operations	06
3. ESG Promotion System	07
4. Introduction of Polaris Initiatives	09
Initiatives for Portfolio Companies	
1. Investment Process to Promote Corporate Value Enhancement through ESG	11
2. ESG Indicator Highlights at Portfolio Companies	15
Initiatives by Polaris Capital Group's Portfolio Companies	
Space Value Holdings Co., Ltd.	16
Social Inclu Co., Ltd.	20
Welbe, Inc.	22

Contents



CEO Message



Founder, President & CEO

Yuji Kimura

We, Polaris Capital Group Co., Ltd. ("Polaris"), celebrated our 20th anniversary in September 2024. Looking back on our journey so far, the progress of the private equity (PE) market in Japan has been remarkable. PE itself was unfamiliar in Japan and was generally viewed with scepticism 20 years ago. However, presently, its role has been recognised socially and economically, and its presence is growing. Moreover, foreign investors have shown growing interest in the Japanese PE market in recent years, reflecting the relative political and economic stability of Japan compared to other parts of Asia.

As a leading firm in the Japanese PE fund industry, we have been committed to promoting ESG principles and ensuring that an ESG mindset prevails among our stakeholders, employees, and community. Our mission and values are consistent with ESG principles, which are the environmental, social, and governance standards demanded by foreign investors. This has helped us build positive relationships with them. Furthermore, we believe that our activities will help promote structural reform and revitalisation of the Japanese economy.

Since its establishment in 2004, Polaris has been operating under the basic philosophy of "We, Polaris, have the mission to contribute to the growth of Japanese industries by providing the best and high value added services to our clients as a fair and diligent intermediary, to become the leading firm in the buyout fund market and to achieve the happiness and fulfilment of each Polaris member." This philosophy is aligned with the spirit of sustainability, which promotes sustainable development for future generations and supports the pursuit of

individual happiness. We have adhered to this philosophy from the very beginning of our company's existence, and we have consistently advanced our sustainability initiatives.

We initiated comprehensive communication with overseas investors around 2012, when we established our third fund. In our dialogue with overseas institutional investors such as Dutch pension funds, we recognised that ESG compliance has become a prerequisite for fundraising from overseas investors. Considering the size of LP investors in Japan, fundraising from foreign investors is absolutely necessary not only for the funds we manage but also for the development of the Japanese PE market. In order to vitalise the domestic PE fund market and continue to be a leading company, we were convinced that our company and other domestic companies must have an ESG mindset in order to grow in the future. Since then, we have been enhancing our internal ESG monitoring methods and initiatives.

In 2016, we became one of the first Japanese PE funds to sign the PRI (Principles for Responsible Investment). In 2018, we established our ESG Policies. In 2022, we adopted the slogan of improving the corporate value of our portfolio companies through Digital Transformation (DX) and ESG. At the same time, we established the ESG Promotion Committee, and since then, the committee has held regular meetings to discuss ESG issues. In addition, we continue to raise awareness of ESG issues among all portfolio companies by conducting regular workshops with them to share best practices.

We are working to identify and resolve environmental, social, and governance (ESG) issues. In the environmental area, we measure GHG emissions at both our company and all of our portfolio companies, and are actively working daily to reduce Scope 3 emissions in particular. In the social area, both Polaris and its portfolio companies are focusing on Diversity, Equity, and Inclusion (DE&I). Some of our portfolio companies, such as those in the manufacturing industry, have low ratios of women in their industries in general. To address this, we monitor indicators such as the ratio of women in management positions at all of our portfolio companies and take steps to improve these figures. For governance, we recognise that it is one of the most important areas as the foundation for a fund that manages investors' assets. We are continuously working to strengthen governance across all of our portfolio companies, including ensuring the effectiveness of the board of directors and enhancing rigorous compliance.

When we select companies to invest in, we consider whether the business contributes to the sustainability of society as an important factor in addition to the attractiveness and growth potential of the business, which has been a traditional criterion. For example, Space Value Holdings Co., Ltd. which operates a prefabricated building ("prefab") business, is one of the few companies capable of quickly supplying prefabs during a crisis, and its business itself can contribute to the sustainability of society. In fact, we were able to meet the demand for several thousand prefabricated units at the time of the 2024 Noto Peninsula Earthquake^{*1} and the 2016 Kumamoto Earthquake^{*2}.

In further accelerating ESG investments in the future, we believe that promoting growth investments focused on ESG issues will contribute to the realisation of a

sustainable society. For example, future investments in companies, particularly those related to decarbonisation technologies and alternative energy, will help reduce environmental impact. We believe that the accumulation of such risk money will strengthen support for companies with high growth potential and help revitalise the Japanese economy.

Polaris will continue to serve as a hub connecting foreign investors and Japanese companies, and will continue to foster ESG mindset and promote best practices among its portfolio companies. By doing so, we aim to balance the social and economic significance of companies, thereby creating a sustainable future.

*1. The earthquake caused the collapse or damage of 136,000 homes and over 400 direct and indirect deaths were reported. (as of November 1, 2024)

*2. The earthquake caused the collapse or damage of over 195,000 homes and over 200 direct and indirect deaths were reported.



Polaris' Initiatives

As a private equity fund serving as a hub connecting global investors and Japanese companies, Polaris has the duty to promote an ESG mindset throughout the industry and society as a whole by diligently addressing ESG issues and enhancing the corporate value of its portfolio companies.

1. Trajectory of ESG Initiatives

As a leading private equity fund in Japan, Polaris has been promoting various initiatives for ESG implementation and information disclosure since 2012, ahead of its peers in Japan.

2012	<ul style="list-style-type: none"> Established Polaris Private Equity Fund III, L.P., initiating significant fundraising from overseas investors. (July) Launched ESG investment initiatives in response to the strong ESG awareness demonstrated by European investors.
2013	Began ESG due diligence as part of the investment process.
2014	Established the ESG policy at the Singapore office.
2015	
2016	<ul style="list-style-type: none"> Signed the Principles for Responsible Investment (PRI). (May) Established Polaris Private Equity Fund IV, L.P. (December)
2017	Launched an endowed course at Hitotsubashi University (ongoing).
2018	<ul style="list-style-type: none"> Achieved highest rating of A+ from PRI. Established the ESG policy for headquarters.
2019	<ul style="list-style-type: none"> Achieved highest rating of A+ from PRI. Launched an endowed course at Kyoto University (ongoing). Established Polaris Private Equity Fund V, L.P. (November)
2020	Achieved highest rating of A+ from PRI.
2021	<ul style="list-style-type: none"> Achieved highest score of five stars across all PRI modules. Appointed Maoko Kotani as an outside director. (June)
2022	<ul style="list-style-type: none"> Established the slogan: "Improve the corporate value of our portfolio companies through DX and ESG" Appointed the Chief Sustainability Officer (CSO). (March) Launched the ESG Promotion Committee. (March) Introduced the Professional Career Transition Programme. (April) For portfolio companies: Initiated monitoring using 38 ESG indicators. For portfolio companies: Held a Diversity Promotion Officers meeting. (September) Became the first domestic PE fund to measure GHG emissions of all portfolio companies in partnership with Zeroboard. (December) Began measuring Polaris' own GHG emissions.
2023	<ul style="list-style-type: none"> Portfolio companies: All companies established Diversity Policies. Achieved highest score of five stars across all PRI modules. Launched an ESG website to enhance information disclosure
2024	<ul style="list-style-type: none"> Deployed Chief Compliance Officers to all portfolio companies in principle. Published the TCFD Report. For portfolio companies: Held a GHG Emissions Reduction Workshop. (September)

2.ESG in Private Equity Fund Management Operations

2-1. Signature of the Principles for Responsible Investment (PRI)

Polaris signed the Principles for Responsible Investment (PRI) in May 2016. We recognise our obligation to take a long-term perspective and pursue the best interests of our beneficiaries. By promoting responsible investments aligned with the six principles of the PRI and addressing environmental, social, and governance (ESG) issues, we aim to fulfil our fiduciary responsibilities to our investors.

PRI's Six Principles

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

We received the highest score of 5 stars in all modules in the 2021 and 2023 consecutively.

2-2. Establishment of ESG Policy

Based on our belief that “the best financial return to the investors will be achieved with due consideration of the investors broader objectives in the environmental, social and governance context”, we established our ESG Policy in 2018. This policy applies not only to our employees but also to the investors of the funds we manage and to our potential portfolio companies.

(Reference: [ESG Policy](#))

2-3. Establishment of ESG Policy for Investment Management Operation

Polaris views ESG as an opportunity in investment, and recognises the importance of integrating ESG issues into investment management operations in order to enhance the value of portfolio companies, and thus has established the ESG Policy for Investment Management Operation in 2018. This establishes a system centred around investment managers and the investment committee to ensure that ESG risks are comprehensively identified, assessed, and managed throughout the investment process, from due diligence on potential portfolio companies to exit.

(Reference: https://polaris-cg.com/us/sustainability/esg_investment/)

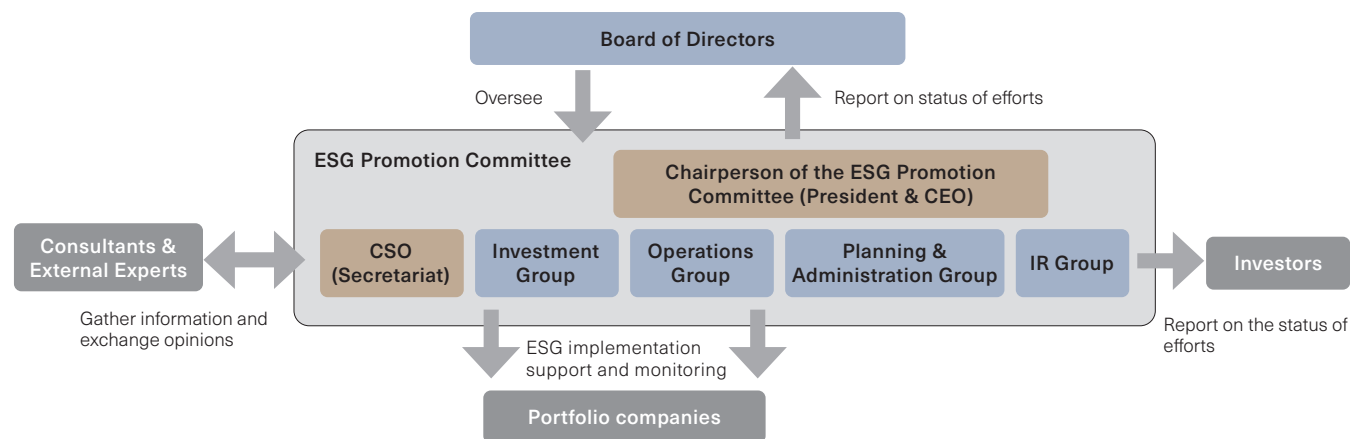


3. ESG Promotion System

In 2022, we established the ESG Promotion Committee, chaired by our President and CEO, Yuji Kimura, with the aim of strengthening our ESG initiatives. We are committed to promoting ESG in a continuous and systematic manner through this committee.

The ESG Promotion Committee consists of the President & CEO, Managing Partner & Executive Deputy President, CSO, all partners as well as all members of the Investment Group, Operations Group, Investor Relations Group, Planning & Administration Group, Singapore subsidiary, and the Chief Compliance Officer. The committee meets every other week and is responsible for promoting ESG within the firm and at portfolio companies. This includes education and information sharing for management and investment leaders (investment project managers), as well as updates on ESG initiatives at portfolio companies by members responsible for the portfolio companies. By fostering an ESG mindset and sharing best practices of initiatives with other portfolio companies, we are raising awareness to enhance ESG capabilities among our portfolio companies.

Polaris ESG Promotion System



Discussions at the ESG Promotion Committee meetings

Year	ESG	E (environment)	S (society)	G (governance)	ESG overall
2022	Number of times ESG-related issues were discussed as agenda items	7	11	1	5
	Examples of agenda items	Sharing GHG reduction trends Introduction and establishment of GHG emissions management system	Sharing best practices of diversity promotion initiatives Explanation of the DE&I policy and current status by the Diversity Officer of portfolio companies	Feedback from overseas investors	Progress on ESG monitoring indicators of portfolio companies
2023	Number of times ESG-related issues were discussed as agenda items	5	1	3	5
	Examples of agenda items	GHG emission reduction workshop Monitoring of progress in creating GHG emission reduction plans	Monitoring of diversity KPIs	Confirmation of ESG data shared with the Japan Private Equity Association	Progress on ESG monitoring indicators of portfolio companies
2024*	Number of times ESG-related issues were discussed as agenda items	5	1	1	10
	Examples of agenda items	Monitoring of progress in creating GHG emission reduction plans TCFD report release	Sharing diversity surveys	SLL (Sustainability Linked Loan)	Progress on ESG monitoring indicators of portfolio companies

* Content for 2024 is as of October 2024

4. Introduction of Polaris Initiatives

E (environment):

Since December 2022, we have been measuring and disclosing the GHG emissions under a comprehensive agreement with Zeroboard Inc.

Amount of GHG emissions (Scope 1, 2, and 3)
(Unit: t-CO2)

	2022
Scope 1	0
Scope 2	33
Scope 1 and 2	33
Scope 3	411,975 of which 99.8% are Category 15

*Scope 1: Direct greenhouse gas emissions by the company itself (e.g., fuel combustion)
*Scope 2: Indirect greenhouse gas emissions from the use of electricity and other energy supplied by other companies
*Scope 3: Indirect emissions other than Scope 1 and Scope 2 (emissions from other companies related to the activities of the company)

*Coverage of aggregation: Scope 1 and 2: Polaris Capital Group Co., Ltd. Scope 3: All Categories, of which Category 15 covers all portfolio companies.
*Aggregation period (for 2022): January to December 2022
*The latest emission data is published on our website as soon as the aggregation is completed.

S (society)

(1) Promoting Diversity and Inclusion

Appointed Maoko Kotani as an outside director

In June 2021, Maoko Kotani, a well-known newscaster from World Business Satellite, an economic news programme, was appointed as an outside director. She is known for her active contributions to ESG activities, including the main anchor of a series of special programmes dedicated to SDGs and ESG topics. Her comments based on her wide range of knowledge, including ESG topics, have catalysed and enriched the Board of Directors' discussions on ESG initiatives.

Appointment of Chief Sustainability Officer (CSO)

In March 2022, we appointed a CSO at the same time as the launch of the ESG Promotion Committee. The CSO promotes awareness within the company and strengthens ESG initiatives in our portfolio companies.

Open recruitment for professional positions

In April 2022, we established a new professional career transition programme for assistants who possess the necessary knowledge, skills, and motivation. As of September 2023, two assistants have transitioned to professional positions through this programme and are contributing to their respective Groups. These transitions are determined through a company-wide open recruitment process and evaluation.

(2) Contributions in the field of education

Endowed Courses

We opened endowed courses at Hitotsubashi University in 2017 and Kyoto University in 2019 respectively. In these endowed courses, entitled "Private Equity Funds and Corporate Value Enhancement," we provide lectures covering a wide range of topics related to the

private equity business to raise awareness and deepen understanding. These include the relationship between corporate value enhancement and ESG, as well as the roles and challenges of private equity funds. By inviting CEOs of portfolio companies as guest speakers and offering other immersive experiences, our lectures are highly popular among students and provide a valuable opportunity for the large number of working students to engage in reskilling and lifelong learning.

Internships

We regularly accept undergraduate and graduate students for internships to gain firsthand experience in the knowledge of PE fund management that we have cultivated since our founding, and to learn about the significance and appeal of our work.

G (Governance): Implementation of highly transparent and fair management

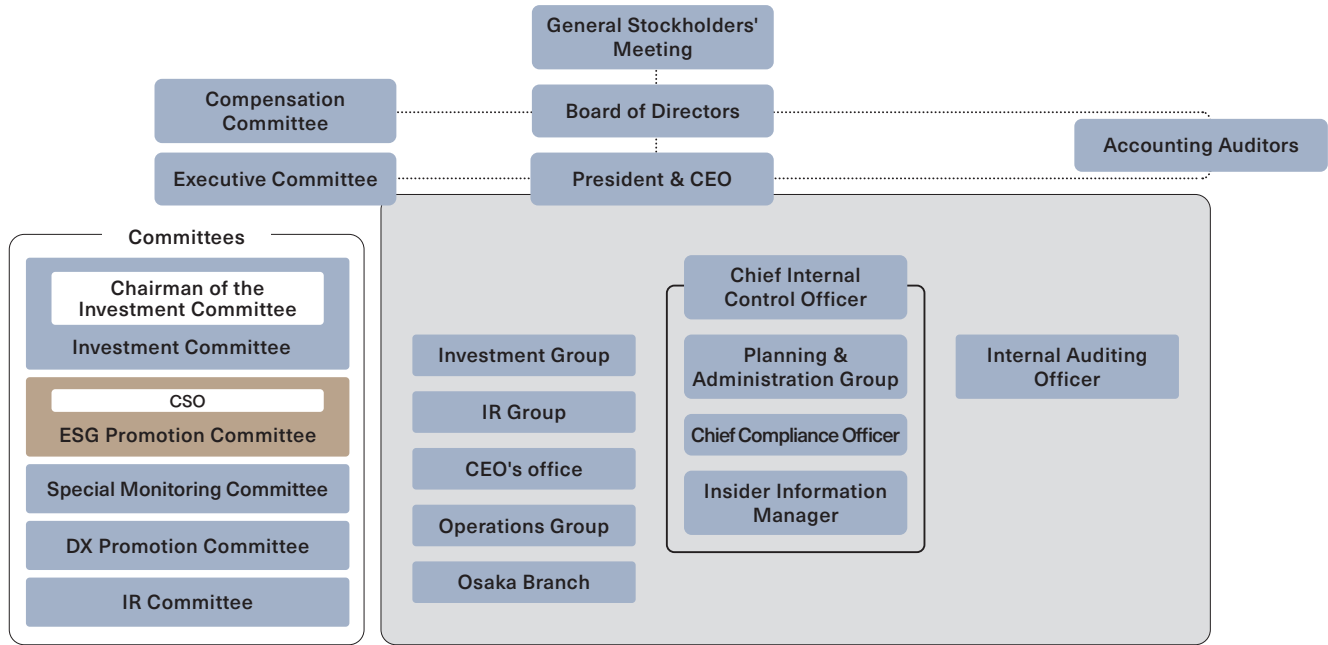
(1) Corporate Governance

Our Company’s Board of Directors consists of six members, three full-time directors and three outside directors, and the supervisory function from outside directors is exercised appropriately. As general partners (GPs) who appropriately manage the assets entrusted by investors, the members of the Investment Committee responsible for investment decision-making must be nominated by the Board of Directors. The Investment Committee is chaired by the Board of Directors. The Investment Committee is chaired by the President & CEO, and decisions are made subject to the approval of the majority of the committee members present.

(2) Internal Control System

We have established a system under the oversight of our Chief Compliance Officer to manage all compliance and risk management-related matters. This includes the development, implementation, and maintenance of the Basic Compliance Policy and various regulations and manuals. We regularly review and update these regulations and manuals to ensure they comply with the latest laws and regulations and reflect our company's current situation. Additionally, we have engaged external experts to implement cybersecurity measures.

Corporate Governance System



Basic Compliance Policy

Polaris Capital Group Co., Ltd. (hereinafter referred to as “Polaris”) shall comply with the following matters in good faith and in a fair manner. In order to ensure thorough compliance with regulations, Polaris has established compliance regulations, and all officers and employees of Polaris shall observe and act in compliance with these standards.

1. Strict compliance with laws and regulations

Polaris will strictly comply with all laws, regulations, and other requirements and carry out ethical corporate activities in accordance with social ethics.

2. Corporate activities with social responsibility and a public mission

As a company in the financial and funding industries,

Polaris will always be aware of the importance of social responsibility and public missions, and will strive to conduct sound and appropriate business operations based on self-responsibility.

3. Respect for human rights

Polaris will strive to eliminate all human rights violations and discrimination in the company, and will endeavour to create a safe working environment in which human rights and personalities are respected.

4. Confrontation with anti-social forces

Polaris will resolutely confront anti-social forces and organisations that threaten the order and safety of civil society.

Initiatives for Portfolio Companies

Polaris formulated the ESG Policy in 2018 with the intention of specifically integrating ESG issues into investment and monitoring processes. We have established measures and standards that incorporate ESG perspectives at each phase of our investment activities so that ESG issues can be consistently identified and considered from due diligence (DD) to exit. During the investment period, under the slogan of “Improve the corporate value of our portfolio companies through DX and ESG,” we conduct activities to foster an ESG mindset in portfolio companies.

1. Investment Process to Promote Corporate Value Enhancement through ESG

Polaris consistently incorporates ESG-related issues into its investment and monitoring processes to instill an ESG mindset and improve corporate value in all portfolio companies.



STEP 1

Pre-Investment

ESG Due Diligence

Polaris conducts ESG DD as part of the DD process for potential portfolio companies. When we judge that the company faces significant challenges in improving because it does not meet ESG standards, we refrain from investing in it. When the issue is manageable, we improve it with proactive support and regular monitoring after investment.

Specific Cases of Due Diligence and Monitoring

ESG	Main items for evaluation	Specific cases
Environmental Responsibility	(1) Presence of air and water pollution (2) Global warming (3) Efficient energy use (4) Harmful substances (5) Land devastation (6) Waste management	<ul style="list-style-type: none"> • Renovation and abolition of ageing facilities • Promotion of LED introduction • Review of appropriate inventory levels • Improvement of transportation efficiency • R&D promotion
Social Responsibility	(1) Perspective of the Universal Declaration of Human Rights (2) Avoiding infringement of human rights (3) Recognizing the freedom of trade unions and the right to collective bargaining (4) Avoidance of forced labour and child labour (5) Elimination of discriminatory labour (6) Perspective on product safety (7) Avoidance of the manufacture or trade of weapons, tobacco, gambling activities, prostitution, narcotics, etc. (8) Severing any relations with anti-social forces	<ul style="list-style-type: none"> • Building a comfortable work environment (workplace design, elimination of unfair discrimination, personnel evaluation standards, benefits system, and incentive design) • Promotion of diversity (equal opportunities, active promotion of young people, active promotion of women)
Corporate Governance Responsibility	(1) Presence of bribes and bribery (2) Presence of anti-competitive practices (3) Composition of the board of directors (4) Compliance with laws and regulations (5) Internal control	<ul style="list-style-type: none"> • Checks through legal and tax due diligence. If any mistakes were identified in the past, reporting on the status of measure formulation and implementation to prevent recurrence • The status of establishing and instilling compliance regulations in accordance with laws and regulations • Promote balance of skills, experiences, and decision-making systems for executives and key personnel • Reviews of meeting bodies, departments, responsibilities, procedures, etc.

STEP 2

Post investment decision

Formulation and implementation of mid-term strategy

Immediately after making an investment decision, we work with the portfolio company to formulate a medium-to long-term plan called a “100-day plan”. At the same time, we build a governance structure by developing the organisation, infrastructure, and rules and regulations that serve as prerequisites for implementing the plan, and identify and address ESG issues.

Formulation of the “100-Day Plan”

The “100-Day Plan,” which includes strategic growth measures and a medium-to long-term plan, is formulated over a period of about three months. In principle, working groups will be formed for each measure, and each group will set its own profit targets, identify issues, and formulate countermeasures. Polaris members will participate in this process, providing hands-on support by leveraging Polaris' experience in management support and establishing a speedy monitoring cycle at the management level.

STEP 3

Monitoring during investment

Fostering of ESG activities

We foster ESG activities in our portfolio companies by utilising 38 ESG indicators. We examine and discuss issues through quarterly monitoring. We aim for the portfolio company to achieve the following initiatives within one year of investment. As of the end of April 2024, the implementation rate of each of the following initiatives was 100%.

- A) Measuring GHG emissions
- B) Developing GHG emissions reduction plans^{*1}
- C) Conducting engagement surveys
- D) Establishing a diversity policy

Polaris aims to drive the company's rapid growth through such support during the investment period, and to achieve high economic efficiency that can overcome the cost of ESG measures.

^{*1}. As of September 2024

Monitoring through 38 ESG Indicators

For all portfolio companies, we have established 38 ESG indicators covering the ESG Data Convergence Initiative (EDCI)^{*2}. We promote ESG activities at each portfolio company by identifying and discussing issues through quarterly monitoring and sharing best practices, as well as other relevant information.

Environmental (E) indicators include Scope 1, 2, and 3 GHG emissions, the presence of energy consumption reduction initiatives, and the presence of waste emissions reduction initiatives. Social (S) indicators include indicators related to employee engagement, such as turnover rate and the response rate to engagement surveys, as well as indicators related to diversity promotion, such as the ratio of employees who take parental leave, the presence of nursing and caregiving leave programmes, and the ratio of female employees. As for governance (G) indicators, we monitor the presence of an internal audit department, establishment of a whistle blowing system or hotline, and the presence of a legal compliance-related department.

^{*2}. ESG Data Convergence Initiative (EDCI): Formally launched in the autumn of 2021, this is the first PE industry-led initiative to unify ESG indicators and create ESG data that will enable performance comparisons. In the first year, 105 GPs provided data on approximately 2,000 portfolio companies, and the collected data is being compared and analysed with similar ESG data of listed companies. As of October 2024, approximately 450 GPs provide data on about 6,200 portfolio companies. (Website: <https://www.esgdc.org/>)

GHG Emissions Measurement

Since 2022, we have partnered with Zeroboard Inc. to calculate and manage GHG emissions of all our portfolio companies. As part of this initiative, we have appointed calculation and reduction promotion members at each portfolio company and have also established an internal system that allows each company to take action independently. We provide expertise and support through workshops. For example in September 2023, we held a GHG emissions workshop to share the latest domestic and international trends and our approach to reduction plans with our portfolio companies. In September 2024, we shared the status of their reductions and best practices with each portfolio company.

Engagement Surveys

Within one year after investment, we conduct engagement surveys for all our portfolio companies. Thereafter, the frequency varies based on each company's situation, but surveys are conducted as needed to increase employee motivation and reduce employee turnover rates.

STEP 4

Exit

Evaluation and assessment of the ESG mindset of potential buyers

When selling a portfolio company, we carefully evaluate whether or not the potential buyer has an ESG mindset, and select a buyer capable of ensuring stable growth while maintaining its ESG principles post-sale.



2. ESG Indicator Highlights at Portfolio Companies

E (environment)

GHG emissions measurement rate*:

100%

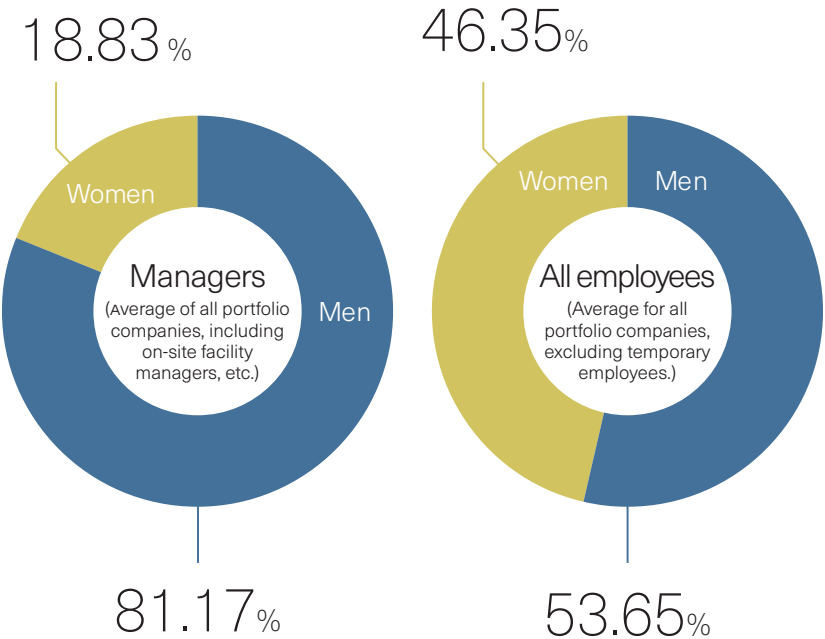
Percentage of companies with GHG emissions reduction plans*:

100%

* Within one year of investment.
Figures compiled as of the end of September 2024.

S (society)

Gender ratio (managers and all employees)*



Diversity policy formulation rate*:

100%

Percentage of male employees taking parental leave (average of all portfolio companies)*:

54.54%

G (governance)

Strengthening compliance monitoring at all portfolio companies: 2024

Assignment of non-executive corporate auditors to strengthen governance

In order to further strengthen governance, Polaris is strengthening its governance structure for all of its portfolio companies. In the past, Polaris' Chief Internal Control Officer has been appointed as a non-executive corporate auditor to provide advice to portfolio companies and other companies with relatively high compliance risk. In addition to this, the Chief Internal Control Officer or Chief Compliance Officer of Polaris has been appointed as a non-executive auditor of all portfolio companies from April 2024 in principle and has started an active dialogue with them to carry out the activities described below.

Specific activities to strengthen compliance monitoring of each portfolio company

1. Confirmation of the sufficiency and progress of measures to improve the compliance systems of each portfolio company
2. Provide advice on how to deal with individual compliance issues
3. Provide support for crisis management in the event of a compliance incident that may damage reputation or business infrastructure
4. Overall monitoring of risk management at portfolio companies

Introduction of Polaris Capital Group's Portfolio Companies

Interview

1

Space Value Holdings Co., Ltd.

Disaster recovery and human resource procurement: Sustainability challenges in the construction industry

Space Value Holdings Co., Ltd. ("Space Value") engages in systemised construction buildings, multi-storey parking structures, and general construction business. In the Noto Peninsula earthquake that occurred on New Year's Day 2024, Space Value contributed to the rapid provision of 1,300 prefabricated temporary housing units, leveraging its systemised construction technology. We interviewed CEO Keisuke Suzuki, to learn about Space Value's business growth and its commitment to sustainability.

Sustainability to address severe labour shortages and disaster response

—How do you see Space Value's business and sustainability being related?

Space Value was founded in 1961, and originally focused on the manufacturing and sale of prefabricated garages. At that time, the concept of sustainability had not been widely understood, and profit maximisation was the top

Company Information

Company Name:	Space Value Holdings Co., Ltd.
Invested:	January 2022
Representative:	Keisuke Suzuki, President and CEO
Business activities:	Development, manufacturing, construction and after-sales service of prefabricated housing and other systemised construction buildings and multi-storey parking structures.
Investment Type:	Going private



priority for companies, including ours. However, the external environment surrounding our company has changed significantly. Not only has the importance of sustainability increased, but labour shortages have become a serious issue, particularly in the construction industry in recent years.

In such a situation, Space Value cannot remain unaffected by the labour shortage. We believe that securing and developing key human resources through human capital management, including our business partners, and strengthening the supply chain are the starting points in solving social issues while continuing our business. This thinking is in line with the philosophy of ESG management, and Space Value is committed to promoting ESG initiatives.

Our business also has aspects that contribute to sustainability. Our standardised systemised construction technology is expected to be one of the solutions for labour shortage. In particular, the prefabricated housing business* is becoming increasingly important from the perspective of maintaining the sustainability of society. In addition to the frequent threat of earthquakes, heavy rains and floods have become more frequent due to rapid climate change in recent years, making natural disasters almost a daily occurrence in Japan. As the frequency and scope of disasters increase, how to recover quickly is becoming an important sustainability issue, both economically and socially.

We are proud to have a meaningful social mission to provide disaster victims with quick, safe, and secure living spaces through the construction of emergency temporary housing using prefabricated structures.

* A construction method that applies prefabrication to a greater extent than traditional construction methods. In this method, components are manufactured and processed in a factory before being assembled on-site without further processing.



—We heard that Space Value quickly provided 1,300 prefabricated houses to the disaster-stricken area after the Noto Peninsula earthquake on January 1, 2024. Although it must have been difficult both geographically and timing-wise, what was the reason for being able to respond on such a large scale?

After a disaster occurs, local governments request temporary housing to the Japan Prefabricated Construction Suppliers and Manufacturers Association under the 'Disaster Relief Act', an industry association. Member companies (prefabricated house manufacturers) are requested by the association to complete the

supply within one month of the request. However, it was necessary to build temporary housing in a situation where lifelines were cut off and there was no electricity or water, making it more difficult than previous disasters in the Noto Peninsula earthquake.

To cope with this situation, we established a disaster response headquarters by gathering on-site supervisors from all over the country and also called on our partner companies nationwide to recruit personnel. While we felt the difficulty of securing personnel in the midst of a labour shortage in the construction industry as a whole, we were able to secure personnel by leveraging the relationships we had built with our business partners. Our

group supplied 1,300 temporary housing units, and the industry as a whole supplied approximately 4,400 units.

—Although the full recovery of the disaster is still a long way off, has the awareness of your employees and suppliers changed after this recovery response?

We believe that it is our mission to supply temporary housing quickly in the event of a disaster. To that end, we have been honing our construction technology and constantly stockpiling the prefabricated components used for the construction of temporary housing. I think that this experience of the earthquake was valuable for our younger employees. This time, we sent a young team, including new graduates who joined this year, along with back-office employees to the site to support non-construction tasks such as procuring food and accommodation. Their facial expressions changed when they returned. I feel that they have developed a stronger sense of mission by actually going to the site and seeing how our company contributes to society. I also visited the site twice. I was speechless at the devastating environment. Since one side of the highway had completely collapsed at intervals of several hundred meters, it took five hours to reach a location that would normally take two hours for a truck to travel. In some areas, about 80% of houses were completely collapsed. In the face of this reality, I believe that all employees have shared a stronger sense of mission to secure housing for disaster victims as soon as possible.

How polaris accelerates ESG initiatives and addresses key issues

—How did Space Value react to Polaris' encouragement to engage in ESG initiatives?

Space Value has been doing its best to pursue profits for a long time, but in recent years, there had been a growing view among management that if we continue with this mindset, it will become difficult to continue our business, considering the trends of the world and the industry. We are grateful for Polaris' investment, which has played a critical role in fostering a heightened sense of urgency around ESG within our organisation. This has enabled us to significantly accelerate our ESG efforts.

—Is there anything in particular that you found impressive about Polaris' support for ESG initiatives?

Immediately after Polaris invested, we began to organise our efforts regarding ESG issues together with Polaris. In the process of making the "100-day plan," we made progress in strengthening governance, developing diversity policies, and introducing GHG emission measurement and management tools. In particular, in terms of addressing the labour shortage, which we consider to be a significant social issue, we have achieved specific results such as work style reforms and the achievement of diversity KPI targets. In terms of ESG initiatives, we place particular importance on the "S" (social) topics. While labour shortages are a challenge for society as a whole, the construction industry, which plays an important role in maintaining social infrastructure, is in a particularly difficult situation. That is why human resources for this industry are essential, and we need to pursue work

style reforms. Even in our company, we believe that we cannot secure human resources unless we do what other industries are doing as a matter of course, such as overtime regulations, paternity leave, and ensuring a five-day workweek. We are working to implement these measures.

As a result, we largely achieved the diversity KPI targets set for the fiscal year ending March 2023. In addition, as an improvement in employee treatment, we provided inflation allowances in the fiscal year ending March 2024. In the fiscal year ending March 2025, we are also planning to implement a base pay increase of 40,000 yen for young employees, and to integrate our human resources systems with the aim of promoting personnel exchange among groups.

In the human resources system development project, we confirmed that employee engagement within Space Value is high through a company-wide employee survey. On the other hand, it was revealed that indicators related to burnout (a phenomenon in which people who have been working enthusiastically suddenly lose motivation) showed a risk and career opportunities were low. Even if employees like Space Value and their work, we need to create an environment where individuals can feel a sense of growth and hope for career continuity while working. From planning phase to each major milestone, the Polaris team has shared examples of other portfolio companies which helped our progress. Since they are deeply involved in our management and understand our circumstances, they have approved investments in human capital, which can be costly, after sufficient discussion. I believe our most significant ESG accomplishment has been the progress we've made in addressing human resources issues, which are central to the "Social" aspect of ESG.

—Space Value recently developed its materiality. Could you please elaborate on the reasons behind Space Value's decision to prioritise "Sustainable operations, including supply chain management that addresses environmental and social issues" and "Socially responsible products and services" as key materiality issues?

On July 3, 2024, we published the materiality we identified with the cooperation of Polaris on our website. We have prioritised operations, products, and services that address environmental and social issues. We believe this is crucial to address the challenges of soaring resource prices, procurement difficulties, and a shortage of subcontractors.

—Could you share with us how Space Value has evolved since identifying its materiality and what future sustainability initiatives it plans to implement?

After identifying our materiality, we set up a Sustainability Promotion Committee. We're now focusing on enhancing ESG awareness throughout the company by using e-learning. We've been gradually sharing updates such as our GHG emissions data and diversity KPIs with our employees. Through consistent communication about our sustainability efforts, I feel that our employees will feel that Space Value's culture is shifting.

Four materialities for sustainable management: Space Value Holdings Co., Ltd.

E Environment	Sustainable operations, including supply chain management that addresses environmental and social issues
S Society	Socially responsible products and services
G Governance	Enhancing investment in human capital and creating a supportive workplace
	Building robust governance and promoting compliance to support sustainable growth

Interview

Social Inclu Co., Ltd.

2

The importance of “thoroughness in everyday matters”: a shared value between our management philosophy and ESG mindset

Social Inclu Co., Ltd. (“Social Inclu”) operates all-day support-type group homes for persons with disabilities nationwide. We interviewed Nobuyuki Matsushita, who was newly appointed as President and CEO in February 2024, about Social Inclu's approach to sustainability.

Integrating sustainability into our business and building a company that employees can be proud of for our users

—How do you see Social Inclu's business related to sustainability?

Personally, I believe that all companies should consider sustainability and move towards a society that is more sustainable. I believe it is my responsibility as a business leader, as a human being, and as a parent. In the case of Social Inclu, we constantly consider what we can do

for people with disabilities with a deep understanding of the broader societal context. Our mission is to contribute to solving social issues by providing safe and secure housing for people with disabilities who live under various circumstances.

—How are you trying to instil the concept of sustainability within Social Inclu?

Ever since I was appointed as CEO of Social Inclu in February 2024, I've been working to convey the importance of our founding philosophy, “Creating a society where no person with a disability has housing difficulties,” to our employees. While my experience as an executive in charge of ESG at other companies tells me that it will take time to disseminate a clear message focused on sustainability, I believe that the first step is to consistently prioritise our philosophy.

—Are there any specific indicators or metrics that you prioritise for business growth?

At Social Inclu, key indicators include turnover rate, paid leave utilisation rate, maternity leave rate, employment rate of persons with disabilities, and the ratio of female managers. These KPIs were created before I took office



Company Information

Company Name:	Social Inclu Co., Ltd.
Invested:	November 2022
Representative:	Nobuyuki Matsushita, President and CEO
Business activities:	Disability welfare services under the Services and Supports for Persons with Disabilities Act, operation of group homes for people with disabilities
Investment Type:	Business Succession

with the goal of achieving them by 2025. I agree with these goals and consider them important as they are set to create a work environment where employees can thrive.

—Could you tell us about the factors that led to a decrease in the turnover rate from 2022 to 2023?

Our turnover rate has halved from 2022 to 2023. We aim to achieve an even lower rate by the end of 2025. We believe that the initiatives we have been steadily implementing at each facility have already yielded results. Each facility accommodates 20 residents and provides support both day and night. As individualised support is required for each resident, staff members are also required to deeply understand the characteristics of each individual. We have been working to create an environment where staff can feel a sense of accomplishment and fulfillment through training and improved communication. We believe that this has contributed to the decrease in the turnover rate and we will continue these efforts in the future.

As a new initiative in 2024, we have revamped our performance evaluation system to further improve employee retention. We plan to make improvements through regular interviews and make it more effective. This term, we are strengthening our efforts to improve employee satisfaction by conducting an engagement survey with updated indicators.

Facing ESG issues with a mindset of “thoroughness in everyday matters” and “doing the ordinary things ordinarily”

—How are you addressing ESG issues, including environmental problems?

Immediately after Polaris' investment, we formulated a policy for ESG as a whole, including the environment. In a nutshell, the pillars are to reduce waste and promote diversity. For example, for E (environment), we are improving water-saving equipment and measuring GHG emissions. With the support of Polaris, we have set a target of reducing Scope 1 and 2 emissions by 33.6% and Scope 3 emissions by 20% by 2030. For S (society), we believe that respecting diversity is important. Many of our employees are women, and there are many women in management positions, so I believe there is a good foundation for sharing diverse values.

—How are you specifically addressing ESG risk management?

Soon after taking office, I shared a message with the entire company saying, “Let's establish a good company.” I believe that a “good company” is one where “there are few bad things or regrets from the perspective of employees, customers, and the community”. Social Inclu's guiding principle is “thoroughness in everyday matters.” This means doing what is expected of us as a member of society and as a company. We understand ESG as a framework for practicing common sense, such as avoid using unnecessary things and valuing diversity since Social Inclu is committed to diversity. In terms of ESG risk, I think the key is to prioritise improving internal communication and responding

swiftly and accurately to any issues that arise to prevent undesirable incidents from occurring within Social Inclu. Specifically, we encourage the use of the whistleblowing system to ensure that there are no unreported accidents or incidents. We have posted whistleblowing system posters in all group homes to encourage people to report any accidents or incidents they find. ESG risk management has been steadily advancing in collaboration with Polaris since their investment. This year, with the addition of new members introduced by Polaris, we have significantly accelerated our efforts to establish a robust ESG risk management framework, particularly by advancing ESG initiatives.

—Have there been any changes in your ESG mindset or future outlook through your dialogue with Polaris?

I believe that Polaris values not only short-term profits but also a company's social value. I hold the same view with Polaris and was moved by their commitment to the ESG management framework, which is one of the reasons why I accepted the position of representative. We will continue to work towards achieving both profits and social value. By answering this interview, I have once again realised how important it is for companies to engage in sustainability initiatives. I am convinced that continuing to demonstrate Social Inclu's commitment to social contribution through supporting people with disabilities and addressing environmental issues will lead to long-term improvement in our corporate value.

Interview

3

Welbe, Inc.

The key to employment support for people with disabilities: adequate staff support and improved employment outcomes

In April 2024, Polaris invested in Welbe, Inc. ("Welbe"), a company that provides employment support services for people with disabilities. We interviewed Executive Vice President Takao Senga, about the company's approach to sustainability, along with comments from Polaris' investment manager on the background and expectations of the investment from an ESG perspective.



Executive Vice President Takao Senga

Pursuing results for employment and retention of people with disabilities

—Please tell us what you value in growing your business.

Welbe provides support to people with disabilities and those who require care giving and nursing, and conducts businesses that solve social issues. That is why we are focusing on and valuing sustainability, especially initiatives related to human capital. The opening sentence of our management philosophy is "Dedicated to the pursuit of self-fulfillment and happiness for all employees," and we, the management team, always keep this in mind when making management decisions. To foster a workplace culture that aligns with this philosophy, I have been chairing the ES (Employee Satisfaction) Committee every Monday since 2020. The Committee is dedicated to creating a work environment where employees sharing our philosophy can feel "pride",



President Makoto Ota

Company Information

Company Name:	Welbe, Inc.
Invested:	April 2024
Representative:	Makoto Ota, President and CEO
Business activities:	Disability welfare services under the Services and Supports for Persons with Disabilities Act (such as labour transition support services), child development support under the Child Welfare Act, and nursing care and nursing services.
Investment Type:	Going private

and continue to feel secure and work for a long time. We believe that enhancing employee engagement leads to high-quality support for our users, which in turn leads to increased sales and profits, and ultimately, to the improvement of sustainable corporate value.

—Are there any indicators that you are aware of or observe to measure the corporate value that Welbe aims for?

As indicators directly linked to sales and profits, we are particularly aware of the number of users and the number of employed people among our users (in the employment transition support business). Because our business model only records sales for the number of days of use, we check the status of the number of users at all business locations at every weekly management meeting. The unit fee per users for our employment support programme is adjusted annually based on the number of individuals who maintain employment for six months or more. To secure a higher unit price, it is necessary to ensure a large number of employed people. As of the end of October 2024, the number of people who have been employed using our services has reached 7,901, and the retention rate after six months of the previous fiscal year has reached 91.0%.* In order to maintain this high retention rate, it is essential to continuously develop the capabilities of our staff. In particular, a deep understanding of disabilities and the provision of tailored post-placement support are critical, and we are dedicated to ongoing improvement.

Initiatives for improving welbe's employee engagement

—How is Welbe addressing ESG issues?

What we are currently focusing on is improving employee engagement. At the ES Committee, managers from each headquarter gather to discuss measures to reduce the burden of our frontline employees and improve their working environment. We have also introduced a suggestion box to gather feedback directly from our employees. Since the launch of the ES Committee, our turnover rate has steadily declined, dropping from the high teens to the low teens. This is a very difficult issue even for listed competitors, but Welbe is making steady progress.

—What kind of initiatives is Welbe taking to improve the skills of Welbe employees?

We have developed an in-house training system to provide employees with the necessary knowledge for each position, from new hires to managers. The site project teams provide opinions that are reflected to the training content. We are also focusing on manualising operations to support our newly assigned staff get up to speed on our operations. The manuals are revised every month through a monthly manual review meeting that collects opinions from staff.

—Please tell us about Welbe's future prospects.

Welbe wants to continue developing businesses that reach out to people in need. At the time of our establishment, we mainly provided employment transition support services for people with mental and developmental disabilities, then we entered the development services for children with developmental

disabilities, and we have recently launched a nursing service for people with chronic illnesses and disabilities as our third pillar. We are committed to continue taking on new challenges and contribute to solving social issues.

Furthermore, we are currently in discussions with Polaris, not only regarding business growth but also ESG initiatives. We are eager to further deepen our existing sustainability efforts and would greatly appreciate Polaris' support in better communicating our internal initiatives, which have not been sufficiently publicised to date. Additionally, since receiving the investment, we have been exchanging information and expertise weekly with Social Inclu, another portfolio company of Polaris operating in welfare services for people with disabilities. We are also providing support to other portfolio companies in improving their employment rate of people with disabilities, and we hope to continue working with Polaris on initiatives to enhance our corporate value in the future.

* Retention rate after six months: The retention rate represents the proportion of users who gained employment between October 2022 and September 2023 and remained employed for six months or longer.

Comments from polaris' investment manager

Background of the investment decision

Polaris' decision to invest in Welbe is based on two main factors: the growth potential of the employment support business for people with disabilities and consideration for ESG.

We have invested in various healthcare and welfare companies such as HITOWA Holdings, Sogo Medical, WELLOFF (Eclasia) and Social Inclu, and believe we can pursue synergies by leveraging our experience and network.

Few companies nationwide focus on employment transition support for people with disabilities as a core business. However, our portfolio companies Welbe and Social Inclu operate nationwide in disability support services. Given the strong alignment of their businesses, Welbe and Social Inclu hold weekly meetings to share knowledge and promote collaboration. This collaboration is expected to generate synergy and create further social value.

Welbe can also provide support to other portfolio companies that do not meet the statutory employment rate for people with disabilities. This expectation of synergy has been an important topic of discussion at the Investment Committee.

We are also optimistic about the market's growth prospects. As awareness of mental health conditions and other disabilities increases, the number of people with disabilities in Japan continues to grow. Additionally, the government has been raising the

mandatory employment rate for people with disabilities. Furthermore, with the increase in dual-income households, the need for out-of-home care for children with developmental disabilities is also increasing. Welbe provides high-quality services in response to this demand, especially in employment transition support and child development services. Despite the fact that the proportion of Welbe's service users with severe disabilities is higher compared to other companies in the same industry, Welbe's recent employment retention rate is at a high level compared to other competitors. When deciding to invest in Welbe, we also focused on compliance and operational quality. Through DD, we found many excellent aspects of Welbe compared to other companies in the same industry, such as its high service quality. We expect Welbe to continue fulfilling its social mission while leveraging its existing strengths.

ESG issues to focus on moving forward

In the 100-day plan, Polaris has proposed improvement measures for Welbe's ESG issues from an external perspective. Specifically, DEI (Diversity, Equity, and Inclusion) is one of the issues. This is a common challenge to companies in the same industry, in which the proportion of women in management positions is low despite the fact that there are many female employees. We want to introduce measures to increase the ratio of women in management positions and foster an organisational culture that places more emphasis on diversity and equity.

Furthermore, we believe it is important to strengthen cooperation with local medical institutions and build a network with psychiatrists, child psychiatrists, return-to-work psychiatrists, and neurologists to provide the best

support tailored to our customers.

From the perspective of supporting both corporate value and social value, we are also considering business opportunities in nascent markets such as independent living training. While these services tend to be given low priority due to its lack of economic viability, they are in high demand within local communities. To support the aspirations of our frontline managers and maintain their motivation, we aim to provide decision-making frameworks that consider not only the standalone economic merits of new ventures but also their potential synergies with our existing businesses. We expect Welbe's efforts to contribute not only to business success but also to solve issues in the local community. Finally, we would like to emphasize that Welbe is a company that promotes inclusion and equity in society. Opportunities provided to people with disabilities in social life are surprisingly limited. To realise a society where people with disabilities can work without prejudice, it is crucial for Welbe to sincerely commit to and continually support the provision of high-quality employment support services.

