



2023 UNEP FI SBE REPORT

MUSIC SECURITIES, INC.

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|  <p>UN environment programme</p> | <p>finance initiative</p> | <p>Sustainable Blue Economy</p> |
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INTRODUCTION

The blue economy refers to the marine industry, which seeks to sustainably develop the economy and society as a whole by protecting the oceans while benefiting from it. In recent years, the term "blue economy" has taken root along with the green economy, and has become a new trend in the global ESG investment field.

The Sustainable Blue Economy Finance Initiative (SBE FI) is the United Nations Environment Programme Finance Initiative (UNEP FI)-hosted global community that enables financing towards ocean and its health. SBE FI strives to facilitate banks, investors, and insurers towards financing a sustainable blue economy that follows the guideline of The Sustainable Blue Economy Finance Principles, which was developed by the European Commission, World Wide Fund for Nature (WWF) and others in 2018 as part of SBE FI structure. To date, more than 70 organizations across the globe have participated in SBE FI, including World Bank, OECD, and Asian Development Bank (ADB).

In 2022, Music Securities, Inc. was honored to be the first Japanese organization to join the SBE FI. Together with Fisherman Japan, the two represent Japan's commitment to accelerating the transition to sustainable use of the world's oceans and marine resources as Signatory and Member, respectively.

Music Securities is also the first Japanese financial institution to sign the Sustainable Blue Finance Principles, which demonstrates its commitment to enabling and preserving sustainable blue finance for future generations.

MEASURING PROGRESS



Music Securities is a blue finance provider that channels investors' fund towards marine-related small and medium businesses with blue impacts.

It carefully curates marine-related businesses to be listed on Securite, its crowdfunding platform. The assessment is based on the appeal of business content, certainty of financial return to investors, and the social impacts creation measured with the guidance of United Nations' Sustainable Development Goals.

The curated marine business operators attract investments from empathizing Securite investors. The funds acquired are utilized to operate the businesses and create real blue impacts.

| Investment Amount | Use of Fund | Impact |
|--|--|--|
| SABAR (Mackerel-specialty restaurant and buyer) 5 rounds of fundraising: 1. JPY 13,625,000 2. JPY 22,200,000 3. JPY 7,020,000 4. JPY 9,900,000 5. JPY 17,880,000 | Opening mackerel-specialty restaurants, cultivating sustainable mackerel production with Obama City, Fukui Prefecture government | <ul style="list-style-type: none"> Local economy revitalization with 300% production increase in Obama City sustainable 'Drunken Mackerel' fed with sake rice lees (Japanese alcohol brewing residue) 16 domestic + 1 overseas SABAR restaurant opened (Singapore CBD area) promoting Japanese mackerel food culture |
| Tsuda Fisheries (wholesale and retail seafood shop) JPY 7,796,500 | Rebuilding destroyed shop, purchasing equipments and facilities | <ul style="list-style-type: none"> 194.94% Total Payment to Investment Ratio (TPIR) 1 disaster-stricken fish store rebuilt 2 new fish stores built nationwide Retail to wholesale scale-up Fisherman Japan (next-generation fishermen organization established) |
| Ishiwata Shoten (Shark-specialty food producer) 2 rounds of fund: 1. JPY 100,000,000 2. JPY 8,610,000 | Rebuilding destroyed office and factory, purchasing equipments and facilities | <ul style="list-style-type: none"> 1 disaster-stricken office and 1 factory rebuilt 100% use of shark body for high grade, mercury-free pet food product 1 sustainable factory with solar panel and wooden structure sourced from neighboring village (circular economy) |

IN-DEPTH FOCUS

"SABAR" Sustainable Mackerel-specialty Restaurant



With 5 successful rounds of funding on Music Securities' platform, Securite, SABAR Restaurant proved to be a solid investment destination for Securite investors.

Utilizing Music Securities' funding, it delivers not only sustainably-procured quality mackerel-based cuisines to Japan and overseas, but also the improvement of the domestic mackerel supply chain through its joint effort of sustainable mackerel aquaculture with Obama City local government in Fukui Prefecture, Japan.



SABAR is very particular about mackerel.

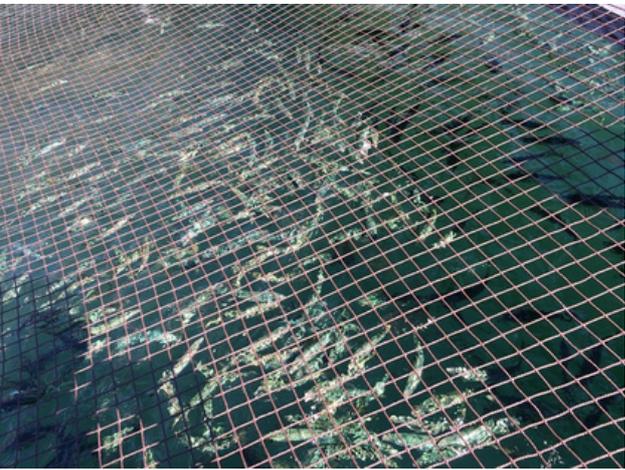
Two sources of mackerel: high-grade **Hachinohe Oki** mackerel with fat content up to 30%, and **'Drunken Mackerel'**; sustainably-aquacultured mackerel fed with *sake* rice lees (brewing residue) are used as the restaurant's main ingredients.

Beyond economic value: Japanese culture and local traditions' preservation

Obama City is known as a mackerel producer since the Asuka period of Japan (538-710 CE), bestowed the title "*sabakaido*" or "Mackerel Highway" due to its mackerel contribution to then-capital Kyoto through its direct portway leading to the capital. Obama mackerel were lauded by Rosanjin, legendary Japanese artist and epicure, and its mackerel food culture resulting in the nationally-beloved *sabazushi* or mackerel-sushi.

However, due to the instability of the catch and the slump in fish prices, mackerel catch in Obama City had fallen by about 40% over the past 20 years, and the catch decreased from a peak of 3,580 tons in 1974 to less than 1 ton in 2014.



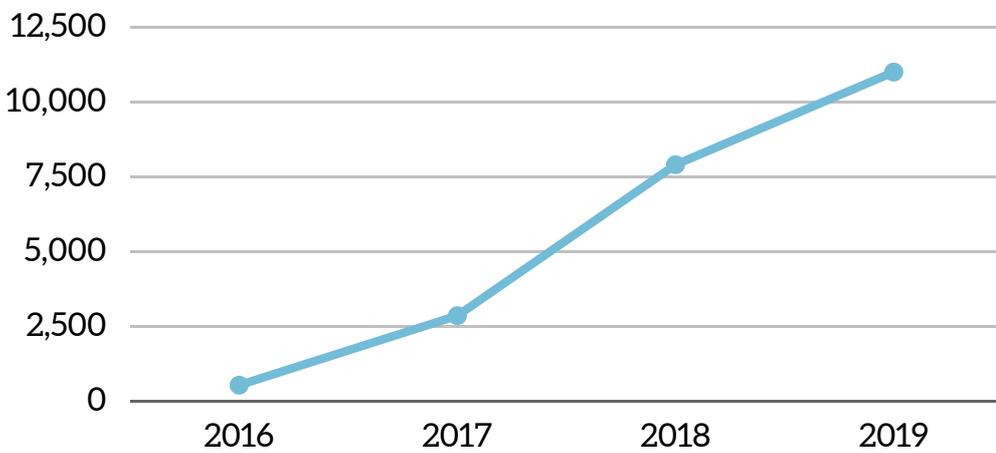


Obama City government launched the “Saba Revival Project” in 2017 to overcome the mackerel crisis in Mackerel Highway. This project is supported by Music Securities and SABAR Restaurant. Through the program, local fishermen manage to catch mackerel while avoiding overfishing, and grow them in the underground spring of Obama Bay which is ideal for mackerel cultivation. The mackerels are fed rice paste from local alcohol brewery, creating circular and local economy.

Obama City government offered a scheme connecting local fishermen and buyers to channel all the profits directly to fishermen, which includes SABAR Restaurant as an exclusive, contracting forward buyer.

Obama Saba Revival Project

Mackerel Shipments Before and After the “Saba Revival Project”



SABAR took a proactive part as a contracting buyer for 4 years to supply the 17 mackerel-specialty restaurants, including its latest Singapore venture. This forward-buying contract was made possible by Music Securities' funding and supported by Securite investors empathizing with Obama City mackerel culture. The private-public partnership resulted in the tripled shipment of mackerel since the project started, reviving local economy and culture seamlessly.

300%

increase of sustainable mackerel (no overfishing, no middlemen) shipment from Obama City in four years (2016-2019) under the Saba Revival Project that included Music Securities' SABAR Fund.

IN-DEPTH FOCUS

Ishiwata Shoten: Sustainable Factory-building for Sustainable and Responsible Shark-processing



Ishiwata Shoten, a shark-processing company, elevates 'sustainable' to another level with its new factory-building plan. Ishiwata Shoten is the representative of local economy rooted in the culture of shark consumption as an area that is bountiful of sharks, taking up the 90% shark landing rate in Japan.

Ishiwata Shoten recovered from the 2011 Great East Japan Earthquake and was able to protect the family business that had been running for more than 60 years by garnering support from investors from all over Japan through Securite, Music Securities' sustainable finance platform.



100% shark-sourcing from IUCN low-risk species list

100% whole shark body usage

90% purchase from local Kesenuma fishermen



With the currently running second fundraising on Securite, Ishiwata Shoten is determined to develop and distribute a product that is sustainable for the environment, people, and culture.

Ishiwata Shoten's new pet food product will be utilizing the whole body of shark that is often sourced only for its fins. Furthermore, it pledges to source shark responsibly by purchasing only sharks in IUCN low-risk species list (100%) and sourcing 90% of the purchase from local Kesenuma fishermen.

A shark's body is 10% fins, and Ishiwata Shoten wants to fully optimize the 90% of the body by processing it into mercury-free pet food product.

By making use of shark's whole body, Ishiwata Shoten will be able to increase profits as the price of the shark fins already includes its whole body. This business optimization will take place in a carefully designed sustainable shark whole-body pet food factory. The factory will be powered with its own sustainable solar panels and structured out of locally sourced wooden structures from Minamisanriku, a neighboring village in the spirit of circular economy.

| SDGs | Targets | Measurement |
|------|---|--|
| | To increase the income of local foresters | Money spent on purchasing Minamisanriku timber |
| | To effectively use the forest resources and to contribute to the forest reservation | Amount of FSC-certified timber used during construction |
| | To reduce the greenhouse gas emissions by using sustainable energy | At least 90% of the electricity used should be generated by biomass power or photovoltaic power generated from solar panels installed on the rooftop |
| | To reduce the greenhouse gas emissions by saving electricity | Power saving in the new factory |
| | Marine resource conservation | 100% of sharks purchased should be low-risk species according to IUCN list and more than 90% of them should be from Kesenuma |
| | To contribute to local economy with high added value of sharks | Weight of processed parts other than shark fin |



IN-DEPTH FOCUS

Ishinomaki Tsuda Fisheries and Fisherman Japan as a transgenerational and responsible marine industry revival



Continuing business could be the last thing considered in post-disaster situation, but Tsuda Fisheries of Ishinomaki, a port city east of Sendai in Miyagi Prefecture, refused to give up the future of Ishinomaki marine business that was already on the verge of death due the lack of willing successors.

Hit severely by the 2011 Great East Japan Earthquake and the subsequent tsunami, Ishinomaki Tsuda Fisheries joined hands with Music Securities to raise JPY 15,000,000 investment in short four months from empathizing Securite investors all over the country. The fund was called 'Tsuda Fish Shop Fund', which was prior to the establishment of the current Ishinomaki Tsuda Fisheries as a limited company.



Remarkably, Tsuda Fisheries were able to return 194,94% of the investment used to rebuilding the shop, a record-breaking ratio in Securite history.



After utilizing the fund from Securite to rebuild the store, Tsuda Fresh Fish Shop registered its business as Tsuda Fisheries and was able to scale up the business from retail to wholesale, domestic and international.

Tsuda Fisheries supplies restaurants and other establishments in Sendai and big cities such as Tokyo and Osaka as a wholesaler. On top of that, it also caters to international orders with a sophisticated shipping system to ensure the freshness of marine products that represent Ishinomaki and Japan.

Remarkably, Tsuda Fisheries were able to return **194,94%** of the investment used to rebuild the shop, a record-breaking number in Securite history.

However, its immeasurable impacts go beyond financial returns, as it was able to revitalize the local marine industry after the great disaster by partnering with local fishermen, local fish shops, local governments. even started an organization to entice young people to inherit the industry and actively preserve marine environment and resources.

Tsuda Fisheries' second generation and direct successor, Mr. Tsuda Yuki, is one of the founders of Fisherman Japan.

Based in Sanriku area that is said to be one of world's top three fishing ground, Fisherman Japan is created to cultivate new and young generation of fishermen that are able to pass down the occupation to their the next generations and protect the environment and marine resources at the same time.



Starting with changing the image of fisherman and marine business into a 'cool, successful, innovative' occupation and industry, Fisherman Japan is driven by the goal of increasing the number of fishermen possessing a wide range of skills in Sanriku up to 1,000 in 10 years by 2024.

Fisherman Japan has created many innovations and utilized the latest technologies and trends to attract young people with high awareness of environmental protection and sustainability into the industry.

Triton Job, for instance, is tech-based marine job-seeking portal filled with trendy yet realistic pictures and description of the jobs and coastal life, as well as in-depth articles exploring the various jobs in marine industry that were not widely understood.



Fisherman College, another cultivation program is aimed at general university students from all over Japan who seek to do internships in real marine sites and experience real marine jobs.



Fisherman Japan strives to cultivate young fishermen in order to protect the seas. Programs such as Ishinomake Save the Ocean Project (ISOP) as a way to prevent seaweed loss. Fisherman Japan regularly conducts diving operations with divers, including seaweed monitoring, sea urchin extermination, underwater afforestation, and rock excavation to make ideal place for seaweed to latch onto.

Looking ahead: Fisherman Japan Blue Fund

As a financial institution, Music Securities' strength is collaboration.

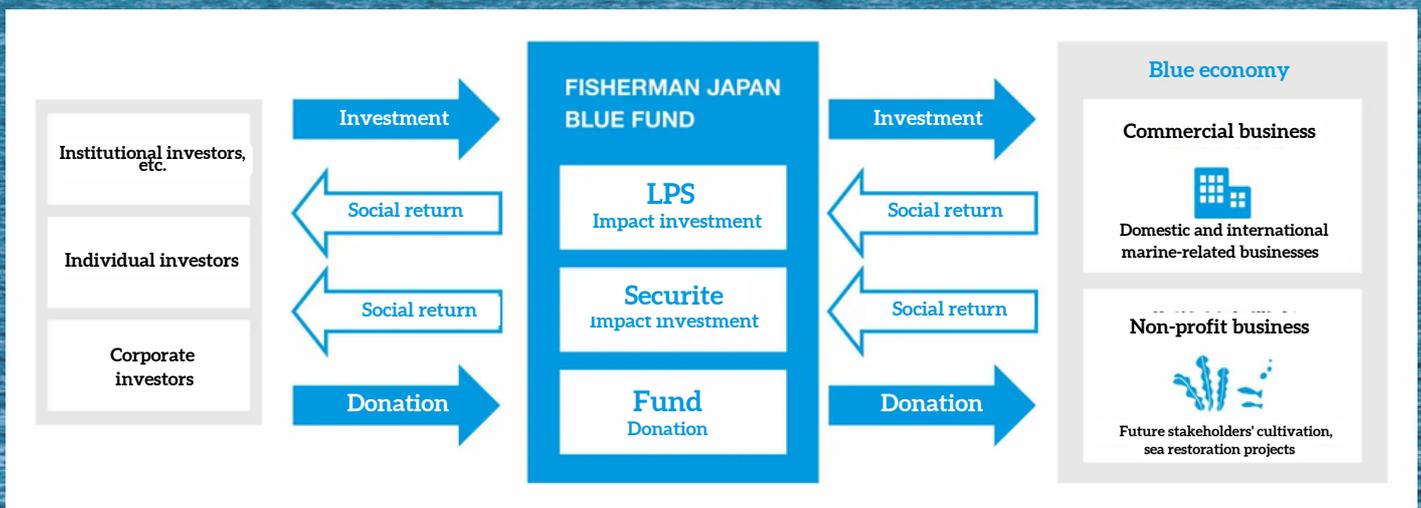
Fisherman Japan Blue Fund will be its next step towards creating a sustainable marine finance ecosystem.

Music Securities seeks to collaborate with institutional and corporate investors carrying the same commitment and enthusiasm towards the Blue Finance Principles by recruiting them as Investors and establishing a fund called "Fisherman Japan Blue Fund Investment Limited Partnership" (hereinafter referred to as "Fisherman Japan Blue Fund") that will be managed in accordance with the Principles.

In Fisherman Japan Blue Fund, Music Securities acts as the fund manager (GP) and works with Fisherman Japan to identify and nurture Blue Economy investment destinations.

When investing, Music Securities aims to contribute to the achievement of SDGs such as "Goal 14: Protect the richness of the oceans" by emphasizing not only economic returns but also social returns using its own investment standards formulated in accordance with SDG 14 and other Sustainable Development Goals.

Investment targets will be selected from a wide range of companies that are driving the blue economy, including digitalization of the ocean for resource management and marine environmental conservation, development of sustainable aquaculture feed, recovery and recycling of marine plastics, realization of a circular economy of the ocean, and distribution and sales of sustainable seafood. The targets represent Music Securities' commitment in fulfilling UNEP FI's Sustainable Blue Finance Principles.



MESSAGE FROM OUR CEO Masami Komatsu



Empathy has been the DNA of our company since its founding in 2000, when we started raising funds for musicians with limited financial access.

In the aftermath of the 2011 Great East Japan Earthquake, we formulated an innovative blended finance consisting of donations and investments to provide funds for affected businesses; mainly maritime businesses around the coastal area of Tohoku. We call this Empathy Driven Funding, and we have been operating thus far with this foundation. Active investment where investors understand the business content to empathize and support the businesses is our defining characteristics.

As a pioneer of sustainable finance, we are proud to have Empathy Driven Funding now globally considered an important approach to sustainable finance.

Japan has a responsibility to lead blue finance as one of the most important maritime nations. With our Empathy Driven Funding approach, we will contribute to Japan's effort in protecting the world's marine environment, resources, and businesses through Securite and Fisherman Japan Blue Fund.

As a maritime nation, Japan has the responsibility to lead blue finance.

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