Stewardship Principles

Established on June 1, 2017

Government Pension Investment Fund (GPIF) requires its external asset managers ("asset managers") for domestic and foreign equity investments to comply with the following principles. If an asset manager should decide not to comply with any of the principles, it is required to explain the rationale for the non-compliance to GPIF.

In order to fulfill its own stewardship responsibilities, GPIF continuously monitors the stewardship activities of asset managers, including the exercise of voting rights, and proactively conducts dialogue (engagement) with them.

(1) Corporate Governance Structure of Asset Managers

○ Asset managers should adopt Japan's Stewardship Code.

○ Asset managers should have a strong corporate governance structure. In particular, asset managers should develop a supervisory system through such measures as appointing outside directors with a high degree of independence in order to enhance their independence and transparency.

○ Asset managers should commit sufficient internal resources to fulfill stewardship responsibilities effectively.

○ Asset managers should explain how their remuneration and incentive systems for their executives and employees are aligned with the interests of GPIF.

(2) Management of Conflicts of Interest by Asset Managers

○ Asset managers should appropriately manage conflicts of interest (if the asset manager belongs to a corporate group, not only within asset manager but also within the group) in order to put the beneficiaries' interests first when conducting activities. Asset managers should classify types of conflicts of interest into those related to financial / capital relationships and those related to business relationships. Asset managers should also develop and publicly disclose a policy for the management of conflicts of interest.

○ Asset managers should manage conflicts of interest through measures such as establishing a third-party committee with a high degree of independence. Asset Managers should select committee members, considering the candidates' independence and experience, among other factors.

○ When exercising voting rights for their own institutions or interested parties such as their parent companies or group companies, asset managers should develop a process to prevent arbitrary decisions through such measures as letting their third-party committee make voting decisions or examining the validity of their own decision, or following a recommendation by a proxy advisor.

(3) Policy for Stewardship Activities, including Engagement

○ Asset managers should develop and publicly disclose a policy of their stewardship activities including engagement.

○ Asset managers should focus on ensuring that their stewardship policy and activities contribute to medium- to long-term shareholder value and, not falling into short-termism. In addition, for more effective stewardship activities, asset managers should consider formulating medium- to long-term action plans.

○ Asset managers should take non-financial information into consideration when engaging investee companies. Non-financial information should include (but not limited to) Corporate Governance Reports and Integrated Reports.

○ If a company should decide not to comply with any of the principles established by relevant corporate governance codes of individual countries or equivalents but to explain, asset managers should seek full explanations and engage with the companies if necessary.

○ Given the significance for passive investment of GPIF equity portfolio, GPIF's performance depends upon medium- to long-term sustainable growth of capital markets. Asset managers for passive mandate should develop and effectively implement a suitable engagement strategy for passive investment.

○ When using an engagement agency, asset managers should conduct proper due diligence prior to selection and continuous monitoring after selection.

(4) ESG Integration into the Investment Process

○ GPIF believes that it is vital to integrate ESG factors into the investment process to promote sustainable growth of corporate value and better medium- to long-term risk adjusted return for GPIF. Asset managers should consider the materiality of ESG issues in relevant sectors and circumstances of individual investee companies and deal with those issues accordingly.

○ Asset managers should proactively engage with investee companies on critical ESG issues.

○ Asset managers should become a signatory of the Principles for Responsible Investment (PRI).

(5) Exercise of Voting Rights

○ Asset managers should exercise voting rights exclusively in the best interests of GPIF and its beneficiaries.

○ In order to increase corporate value at investee companies, asset managers should exercise voting rights in accordance with the GPIF Proxy Voting Principles as attached.

○ When using a proxy advisor, asset managers should conduct proper due diligence prior to selection. After selection, asset managers should continuously monitor service quality and engage with the proxy advisor as necessary (excluding cases where the objective is managing conflicts of interest).

End

Proxy Voting Principles

Established on June 1, 2017

○ GPIF's external asset managers ("asset managers") should develop a proxy voting policy and guidelines to maximize shareholders' long-term interests. The policy and guidelines should be publicly disclosed in the way to make their basis of judgment clear.

○ Asset managers should sufficiently communicate with investee companies to help inform proxy voting decisions and to ensure that all voting rights are exercised with thoughtful consideration.

○ Asset managers should give careful consideration to ESG issues when exercising voting rights, with the objective of enhancing investee companies' corporate value over the medium- to long-term.

○ Asset managers should apply careful due diligence when exercising voting rights on proposals that could undermine minority shareholders' interests.

○ Asset managers should exercise voting rights in accordance with Corporate Governance Codes established by individual countries. When there is no such code or equivalent, asset managers should appropriately exercise voting rights consistent with the standard that they require investee companies to follow.

○ If asset managers use a proxy advisory service to exercise voting rights, asset managers should not mechanically follow the advisor's recommendations (excluding cases in which the objective is to manage conflicts of interest). It is the sole responsibility of asset managers to exercise voting rights in the best interests of GPIF and its beneficiaries.

○ Asset managers should publicly disclose all voting records at each investee company.

○ Asset managers should explain to investee companies or publicly disclose the voting records and rationale, depending upon the importance and relevance.

○ Asset managers should periodically review their voting records and process, and make necessary updates to the policy.

End