Summary of the 3rd Meeting of the Business and Asset Owners' Forum

The third Forum meeting was held on Friday, October 6, 2017 with the following member companies (in alphabetical order) and asset owners:

Companies:

Asahi Group Holdings, Ltd. (absent)
Eisai Co., Ltd. (*)
Hitachi, Ltd. (absent)
JFE Holdings, Inc.
Mitsubishi Chemical Holdings Corporation
Nippon Telegraph and Telephone Corporation
Nissan Motor Corporation (*)
OMRON Corporation (*)
Shiseido Co., Ltd.
TOTO Ltd. (absent)
(*)Three companies are organizers of the Forum.

Asset owners:

Federation of National Public Service Personnel Mutual Aid Associations
Pension Fund Association for Local Government Officials
National Federation of Mutual Aid Associations for Municipal Personnel
Promotion and Mutual Aid Corporation for Private Schools of Japan
Government Pension Investment Fund

Summary of the meeting:

A. Report by GPIF on recent discussions about ESG, SDGs, etc. globally

- The blueprint (vision over the next decade) of “Principles for Responsible Investment (PRI)” emphasizes that the role of asset owners, who have a significant influence on the entire investment chain, should be enhanced. This is mirrored in the Stewardship Code revised in May this year, which clearly defines the stewardship responsibilities of asset owners based on their position and role in the investment chain.

- The idea that consideration of ESG is an important factor into the investment has been shared. In the UK, the view that investment that does not consider ESG goes against fiduciary responsibility is becoming prevalent. However, although there is consensus in considering ESG as investment risk, opposing views exist among investors on whether ESG is an opportunity for more profit.

- In the PRI Blueprint, SDGs are considered investment opportunities, and SDGs integration is one of the topics. It may be easier to gain the understanding of investors who consider ESG as a risk factor, if SDGs are considered as tools that businesses or governments can easily use, business strategies are formed using SDGs, and there is communication with investors. It was always believed that ESG and SDGs are two sides of the same coin, and it appears that there is a strong commitment among PRI participant organizations to merge ESG and SDGs.

- Not only companies, asset managers, and asset owners, but also proxy advisory firms, engagement agencies, ESG research companies and indices providers have influence over the investment chain. As such, there is stronger awareness in PRI that the entire investment chain including these players must change, which is in line with the direction that GPIF is aiming for.

B. Summary of the discussions among participant companies

Each company gave presentations on their initiatives regarding ESG, SDGs and sustainable management followed by free discussion.

< ESG, SDGs and sustainable management >

- Some international investors comment that Japanese companies lack transparency, but we believe good communication can be established with global investors by embracing SDGs as a new global framework.

- After the selection of GPIF's ESG indices, we held a meeting with the ESG research company. We gained the impression that while it is possible to be appropriately evaluated by improving disclosure of E (Environment) and S (Society), it is not so easy for G (Governance). This is because it seemed that governance was considered a monitoring function to prevent corporate value being tarnished. However, there still might be a way to balance growth governance (contributing to medium- to long-term improvement of corporate value and market capitalization) and risk hedge governance even for companies with auditor system depending on how it is done.

- We create opportunities to directly explain our initiatives based on SDGs to both domestic and international shareholders, but it seems that international investors respond better than domestic investors at present.

- For governance issues related to ESG, we believe the important thing for businesses is how to separate monitoring functions and execution ones, as well as whether the board directors are committed as non-executive for oversight.

- While each business unit is carrying out its own activities, the terms ESG and SDGs are not yet spreading in the company as a shared language. Meanwhile, there have been more opportunities for meetings with investors focusing on CSR and ESG, and we conducted surveys on them. We have identified slight differences in what are considered priority items or focus items. From company's point of view, incorporating these takeaways in our considerations, we would like to examine how we can connect things to ESG and SDGs as a whole business.

- We recognize that the initiative of "Call for Applications for ESG Index for Japanese Equities" by GPIF is groundbreaking for the following reasons. First, by disclosing the evaluation items for the ESG index, GPIF has provided the perspectives of identifying materiality, establishing targets and KPIs, and disclosing ESG information, as businesses step up their efforts for ESG issues using the SDGs framework. Second, it opened business managements' eyes to the importance of passive investment (especially ESG indices such as the smart beta index), and made them aware of the incentives for stepping up their ESG initiatives, including improved share price or reduced capital cost. Third, by launching related ETFs, it paved the way for increased investment in ESG indices not only by institutional investors but also by corporate pension funds and individuals.

< Disclosure of detailed proxy voting results >

- When asked why they cast against vote, most of asset managers say it was because of pressure of disclosure of detailed voting results and that from asset owners. We would like them to decide on how to vote from the perspective of improving corporate value.
- Supplementary Principle 1-1-(1) in the Corporate Governance Code indicates that when there is a significant number of opposing votes, the cause shall be analyzed including why a resolution was opposed, and discussions shall be held on whether or not any further steps should be taken, including dialogue with shareholders. However, some businesses believe that the only important thing is to have a resolution passed, while some investors take no action towards companies that voted against a resolution. In order to enhance the synergy effect of the two Codes, it is very important that companies and investors engage in discussion and deepen their mutual understanding.

< Joint engagement >

- Joint engagement saves time of companies' management. However, there may be different levels of investors, and they might not want to reveal of their ways of investment.
- Meetings of a small or medium scale on ESG as the main topic could be conducted in an efficient way. When it comes to ESG, we feel that there is a relatively large number of questions that we all have in common.
- In particular, if ESG is to be discussed with passive investors, it can be helpful to be joined by other investors, to be able to confirm the direction that they are headed for by exchanging opinions.
- The phrase "joint engagement" gives the impression of investors gathering together to pressure action through the power of scale. If it just means making things simpler by grouping together meetings with the common topics, it is already being carried out in practice of briefing sessions or small meetings. It is difficult to precisely define the term.

C. Release of topics and summary of discussions

- At the third Forum meeting, as in the case of the previous ones, the companies at the Forum unanimously agreed and requested that GPIF release a summary of the discussions on Chatham House Rule basis.