



Summary of the Stewardship Activities Report in 2017

Government Pension Investment Fund



February 2018

GPIF's Priorities to fulfill Stewardship Responsibilities

Belief

Long-term investment returns should be increased by enhancing
“Sustainable Corporate Value” and “Capital Market Efficiency”

Priorities to Fulfill
 Stewardship
 Responsibilities

- Build a win-win environment in the investment chain
- Demand external asset managers to fulfill stewardship responsibilities and improve their own governance
- ESG integration in the investment decision

Establishment
 and Revision of
 Principles & Policies

- Revised GPIF's Investment Principles
- Established Stewardship Principles & Proxy Voting Principles
- Revised Policy to Fulfill Stewardship responsibilities

Expand Stewardship & ESG
 Activities to All Asset Classes
 Enhance Engagement
 Other Activities

- Consider ESG factors in the selection of Asset Managers for Alternative Assets
- GPIF and World Bank Joined Forces to Mobilize Capital Markets for Sustainable Investments - Joint Research Program regarding ESG Integration into Fixed Income Portfolios -
- Engagement with external asset managers
- Engagement with index providers
- Conducted a survey on companies of the JPX-Nikkei Index 400
- Organized “Business and Asset Owners’ Forum”
- Published “Excellent & most-improved Integrated Reports” selected by GPIF's external asset managers
- Revised the evaluation criteria of external asset managers
- Selected and invested in three ESG indices for Japanese equities
- Called for Applications for Global Environmental Stock Index
- Strengthened collaboration with stakeholders and associated organizations

Stewardship Activities by GPIF's External Asset Managers

1. External asset managers' governance structures and management of conflicts of interest with their parent companies, etc.

- Japanese external asset managers improved their governance structures, e.g. by separating their asset management function from other operations, by appointing outside directors, and by setting up the third party committee to manage conflicts of interest between asset management business and others.
- Some non-Japanese managers do not show a clear organizational structure to secure the independence of asset management business.

2. Engagement by passive managers and proper exercise of voting right

- Most of passive managers have developed specialized teams that focuses on their stewardship activities. Their activities now have been organized and conducted more steadily throughout the year.
- All passive managers for Japanese equities now have their dedicated teams that engage with portfolio companies to enhance long-term corporate value.
- We have again asked asset managers to propose new business models to reflect GPIF's Stewardship Principles in call for applications of passive managers for Japanese equities, since there have been no specific proposals since last year.

3. Critical ESG issues

- GPIF, in its Stewardship Principles, requires that asset managers should integrate ESG into their investment process and proactively engage with portfolio companies on critical ESG issues
- According our survey, passive managers for Japanese equities seem to regard long-term ESG factors as more critical, meanwhile active managers for Japanese equities tend to focus on more G(Governance) issues.

Expectations & Challenges for External Asset Managers and GPIF's Action Plans going forward

Expectations and Challenges for External Asset Managers

- ✓ **Integrate GPIF's Stewardship Principles and Proxy Voting Principles among asset managers' operations at all the levels throughout their organizations**
- ✓ **Enhance the governance of asset managers and effectiveness of measures to prevent conflicts of interest**
 - Targets subject to conflicts of interest
 - Positioning and roles of the Third Party Committee
- ✓ **Propose business models for "new passive investment" to reflect GPIF's Stewardship Principles**
 - Measure the effects of stewardship activities appropriately
 - Establish the assessment criteria for stewardship activities
 - Formulate action plans for engagement
- ✓ **ESG integration across different investment styles**
 - Effective ESG integration in light of the size of companies and industry characteristics
 - Further utilization of non-financial information such as integrated reports, etc.
 - Engagement on critical ESG issues
- ✓ **Suitable compensation scheme for executives and employees at external asset managers not to promote the short-termism**

GPIF's Action Plans going forward

- ✓ **"Enhance engagement" with asset managers**
 - Acknowledge compliance status of GPIF's Stewardship Principles
 - Confirm the effectiveness of governance and measures to prevent conflicts of interest by using case studies, etc. (when the independence of asset management business is not explicit such as in the case of some non-Japanese asset managers, etc.)
 - Confirm action plans for engagement and working on critical ESG issues
- ✓ **Consider possible joint engagement by asset owners with external asset managers**
- ✓ **Examine evaluation criteria and fee structure in line with business models of "new passive investment" in the era of stewardship**
 - Utilize discussions at PRI's Passive Investment Working Group
 - Consider using external consulting firms
- ✓ **Improve our evaluation methods for ESG integration (including engagement) by asset managers**
 - Utilize discussions at PRI's SDGs Advisory Committee and the Global Asset Owners' Forum
- ✓ **Analyze the compensation scheme for executives and employees at external asset managers**
 - Consider possible hire of an HR consulting firm to examine whether their compensation scheme is designed to increase long-term returns