

Summary of the 5th Meeting of the Business and Asset Owners' Forum

The fifth Forum meeting was held on Thursday, October 11, 2018 with the following member companies (in alphabetical order) and asset owners:

Companies:

Asahi Group Holdings, Ltd.

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, etc. globally

- Trends associated in the asset management industry and related areas can be divided into two major categories: “sustainability” and “inclusiveness.” Particularly, sustainability has been referred to at global conferences and, “climate change” is the largest issue among investors. Also, we have seen a series of new topics, such as cyber security and microplastic problem, etc. We need to keep up with these global trends.
- Disclosure is critical in promoting the improvement of transparency of the entire investment chain and forward-looking investment activities for the future. It is essential that both companies and ESG rating

agencies keep working to address inconsistencies in ESG ratings, while they have been a little improved. We see some improvement based on Japanese companies' positive efforts for disclosures.

- TCFD (the Task Force on Climate-related Financial Disclosures), as we mentioned in the previous meeting, has been one of the hottest topics in relation to disclosure. It is highly likely that TCFD will be a mainstream policy-neutral framework, given that it was established by FSB (the Financial Stability Board) responding to a request from G20 and that various organizations have started to consider how to be aligned with TCFD recommendations this year.
- Japan's METI (Ministry of Economy, Trade and Industry) has established a TCFD study group. Disclosure of ESG information, including TCFD recommendations, is considered essential for companies to gain an advantageous position in their business strategies and to obtain ESG investments.

B. Summary of discussions among the participant companies

The participant companies held free discussions on the following topics:

- Measures to enhance ESG practices (structural reform of organization, promotion of dialogue, etc.)
- Quarterly settlement

<Measures to enhance ESG practices (structural reform of organizations, promotion of dialogue, etc.)>

- Differences between Japanese and foreign companies are evident when they communicate with global investors. Japanese companies take a build-up approach, or forecast style, in making future business plan, on the other, foreign companies employ backcast approach, setting a vision first followed by processes to take up. The microplastic problem, for example, while a global consensus calls for elimination entirely by 2030, Japanese companies are aiming for a 30% reduction by 2020 and forward. Japanese companies, if they are to compete in global markets, need to establish a long-term vision in line with the global standard and communicate with global investors.
- ESG is not a central topic in the dialogue with active investors. Active investors tend to focus on business performance, with some interest in governance issues. Therefore, we try to ask them if they have any questions related to ESG. We also try to make a presentation on our ESG practices at the end of meetings.
- One of the U.S. hedge funds commented, "We recognize the importance of ESG and conducting research. We do not incorporate ESG because it is not yet integrated in Japanese markets and with no impact on market trends. However, if financial markets become efficient enough to incorporate ESG into prices, we will do that." I thought that the US investors were behind Europeans in terms of ESG integration. Considering that situation where even hedge funds and activists are keen on ESG issues, it is concerning that Japan has fallen behind the US and Europe.
- We hosted an ESG seminar, presented neither by the CEO nor IR staff, but by executive officers responsible for public relations, human resources, manufacturing/quality control and legal departments. Investors showed their strong interest with various questions. That enlightened us for further dialogues with investors.
- We have established a sustainability advisory board, in which we discuss desirable ESG practices and receive recommendations and advice from external experts in and outside Japan. Our CEO/CFO also participate to

make effective discussions to align ESG to corporate value. Also, as a new attempt, we have arranged a dialogue between only non-executive directors and investors.

- We have announced a goal to achieve carbon Zero emission by 2050. We endeavored to take a back-casting approach, focusing on planning a journey towards the desired goal.
- Investors' ESG staff often asks whether we are taking measures for E&S to increase the probability of achieving the plan in the future and whether our governance structure is adequate to secure that.
- In a holding company structure, we are sure that ESG is viewed as an extremely important issue at a listed holding company, but less so in its subsidiaries. Therefore, we promote them to gather and hold discussions together.
- Sustainability is at the core of our business operations. To plan for the next 10, 20 and 30 years, we hold a forum for considering future challenges, inviting various related parties. When announcing the medium-term management plan, we discuss challenges for the next 30 years, but investors do not seem to be keen on them.
- It is important to nurture an environment where employees can participate in them to promote ESG activities effectively, Japanese companies are often criticized for lack of vision. It is important to set a clearly-defined vision which will effectively lead employees to work together for the common goal. We will further promote taking an approach that concurrently pursues both the enhancement of internal awareness and dialogue with external parties with better disclosure.
- Our company has segregated departments responsible for each of "E," "S" and "G." It seems difficult to realize cross-departmental effects as long as each department works independently as a silo. Accordingly, we have set up a Corporate Strategy Department which plans overall company strategies. It functions as a joint project, where executive officers as well as those participate and discuss challenges related to E&S.

<Quarterly settlement>

- It is recommended that discussions should be given to decide an appropriate timing of disclosure based on industry characteristics as well needs of investors and shareholders. The quarterly disclosure could be in sync with quarterly performance release, for example.
- On a work level, the quarterly settlement requires an audit certificate and review in Japan, which is a rather burdensome process compared with the practice of US and Europe. That may be the case with sell-side analysts as well.
- Sell-side analyst reports excessively emphasize short-term financial figures, perhaps due to the current quarterly settlement system. They don't refer to ESG practices, even though companies provide with. It is expected that overseas investors may catch ESG topics if they include those topics.
- We now see analyst reports which provide more in-depth and medium- to long-term corporate valuation by stopping preview interviews.
- We now see some strategists have released informative ESG-themed reports.

[Release of topics and summary of discussions]

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