

## Summary of the 6th Meeting of the Business and Asset Owners' Forum

The sixth Forum meeting was held on Friday, April 5, 2019 with the following member companies (in alphabetical order) and asset owners:

### Companies:

Asahi Group Holdings, Ltd.

Eisai Co., Ltd. (\*)

Hitachi, Ltd.

JFE Holdings, Inc.

Mitsubishi Chemical Holdings Corporation

Nippon Telegraph and Telephone Corporation

Nissan Motor Corporation (\*)

OMRON Corporation (\*)

Shiseido Co., Ltd.

TOTO Ltd.

(\*) 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. TCFD

- Disclosure has been made on the issue of climate change in the integrated report. In this sense, we feel that interest in climate change, which has not been zero in the past, is growing significantly. For this reason, we thought it was necessary not only to disclose environmental KPIs and other achievements, but also to explain them in relation to our business. In this context, we expressed our support for TCFD.
- TCFD is a tool to clearly and plainly explain corporate value creation on a long-term basis to investors from the perspective of the environment.

- Based on our experience in preparing the integrated report, I think it is difficult to make a complete disclosure from the beginning. That's why we need feedback from investors who actually use the information. While we are receiving more and more comments from investors on ESG, there may be superficial exchanges of views. We believe that a better cycle will be created if we can make beneficial dialogues each other.
- We wanted to refer to TCFD in this year's integrated report. But we were hesitant to endorse it when we had yet to disclose anything. We decisively expressed our support for TCFD because some companies stressed that it would be best practice to express support at this stage.
- TCFD is just one means of corporate disclosure. We believe that it is meaningful to let stakeholders understand by explaining what we are doing right now more clearly in the new TCFD framework, rather than changing the existing sustainability management framework.
- It is not restricted to climate change, but European consumers, particularly Millennials, are very environmentally conscious. In reality, they are choosing products based on their corporate behaviour and disclosure. We considered TCFD based on a necessary action as a company, not on internal discussions, but from the perspective of how customers, consumers, businesses and markets outside the company are oriented.

#### B. Activities on the revised "Corporate Governance Code" and recent dialogues with investors

- In line with its long-term goals, the company has decided to shift from the conventional term "pay for performance" to "pay for mission," to a system that rewards employees for fulfilling their roles and responsibilities, and to share a sense of profit with shareholders.
- We've included ESG-related goals in the evaluation items of long-term incentives. The evaluation weight accounts for 90% for economic value and 10% for ESG-related social value, adopting multiple internal and external ESG indicators as evaluation criteria.
- To ensure the system design, we've set up a voluntary compensation advisory committee, having an outside director as a chairman.
- We've included sustainability in the medium- to long-term performance-linked compensation KPI. We considered that it would be imperative to include sustainability in the executive compensation structure to let each employee understand the SDGs management and importance of ESG in his or her daily work.
- We recognize that many investors refer to sustainability as a plus factor in the compensation scheme. However, we think it is difficult to increase understanding inside the company.
- We've introduced medium-term performance-based bonus when compensation scheme was reviewed. The scheme is designed based on dialogues with investors, however, we need to continue to devise the scheme, KPIs and disclosure.
- We feel that corporate governance and incentives for compensation have evolved more at companies than asset manager side. They need to show appropriate models and schemes as long as they assess those of companies.
- Management's fiduciary duty is to maximize corporate value. We believe that corporate value includes not only financial value but non-financial value including ESG, and that human capital is the most important among them. Therefore, employee pension is also important and we are working on corporate pension in the

context of fulfilling fiduciary duty to maximize corporate pension.

- Recognizing that the shortage of defined benefit pension reserves is a management risk for companies, we entrusted a third-party assessment of the corporate pension fund management system. We will formulate improvement measures to resolve issues pointed out by the third-party, and intend to sign up for the Stewardship Code.
- We receive a lot of surveys from ESG rating agencies, especially from environmental rating ones. It is difficult for us to address all of them, honestly speaking. On the other hand, issues such as improvement in quality and transparency of ESG research in which investors' engagement and proxy voting based on ESG evaluation provided by those agencies are out of a kind of black box have been pointed out.

[Release of topics and summary of discussions]

- At the sixth 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 the Chatham House Rule basis.

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