



**“Critical ESG issues” listed by GPIF’s asset managers**

In its Stewardship Principles, GPIF stipulates that asset managers should consider ESG factors and that they should proactively engage with investee companies on critical ESG issues. Accordingly, the following issues were identified as material ESG issues among asset managers. While a variety of ESG issues were identified, the table below represents the issues pointed out by all asset managers, whereas the table in the page 3 and 4 shows the issues pointed out by more than 50% of asset managers.

< Critical ESG issues listed by all domestic equity managers >

	Passive	Active
Y 2021	Climate Change, Misconduct, Disclosure, Supply Chain, Diversity, <u>Corporate Governance</u>	Board Structure & Self-evaluation, Minority Shareholder Rights, <u>Disclosure</u>
Y 2020	Climate Change, Misconduct, Disclosure, Supply Chain, Diversity	Board Structure & Self-evaluation, Minority Shareholder Rights
Y 2019	Climate Change, Misconduct, Disclosure	Board Structure & Self-evaluation, Minority Shareholder Rights
Y 2018	Climate Change, Misconduct, Supply Chain	Board Structure & Self-evaluation

< Critical ESG issues listed by all foreign equity managers >

	Passive	Active
Y 2021	Climate Change, Diversity, Disclosure, Supply Chain	Climate Change
Y 2020	Climate Change, Diversity, Disclosure, Supply Chain	Climate Change
Y 2019	Climate Change, Diversity, Others (social), Disclosure	Climate Change
Y 2018	Climate Change, Diversity, Others (social), Water Stress & Water Security	Climate Change

< Critical ESG issues listed by all domestic bond managers from the viewpoint of corporate bond investors >

Y 2021	Disclosure
Y 2020	Disclosure

< Critical ESG issues listed by all foreign bond managers from the viewpoint of corporate bond investors >

Not available

The underlined items in the above items are issues newly selected from all the managers this time compared to the previous survey.

< Domestic equities >

"Corporate Governance" was newly listed as a critical ESG issue by all passive managers this time, and specifically, those many items that are also mentioned in the Corporate Governance Code, such as the role and effectiveness of the board of directors, succession plans and compensation structure, and explanation of voting results. In addition, all active managers chose "Disclosure" in this survey, and all of passive and active managers, consider it to be a common and critical issue. Specifically, in terms of disclosure, we found that asset managers consider not only the content of disclosure including the preparation and enhancement of integrated reports, disclosure of GHG emissions, disclosure policies and communication with investors and disclosure in English, but also the way of information is disclosed to be important. Except for "Disclosure," passive and active managers differ in terms of the issues they consider critical, with active managers recognizing G (governance) issues such as "Board structure & Self-evaluation" and "Minority Shareholder Rights" as more critical ESG issues, and passive managers recognizing a wide range of long-term issues including E (environmental) and S (social) issues such as "Climate Change," "Diversity," "Supply Chain"), and "Misconduct," as more critical.

< Foreign equities >

The issues selected by all foreign equity managers, both passive and active, remained unchanged from the previous survey. "Climate change," "Diversity," "Supply Chain," and "Disclosure" which were identified as critical ESG issues by all passive managers, were also identified by passive domestic equity managers. In particular, "Supply Chain" has been recognized as a critical issue by both domestic and foreign passive managers for the second consecutive year, on the back of the COVID-19 pandemic.

< Domestic bonds >

GPIF also asked external asset managers entrusted with bond investment about critical ESG issues considered from the viewpoint of corporate bond investors from Year of 2020. All domestic bond managers identified "Disclosure" as a critical issue for the second consecutive year. As shown above, all domestic equity managers also identified "Disclosure" as a critical issue, indicating that regardless of the asset class, any managers consider it to be a critical issue for Japanese firms.

The issues pointed out as "critical ESG issues" by more than 50% of external asset managers\* of each asset under management are listed below.

<Passive managers of domestic equities>

<b>Climate Change</b>	<b>100%</b>
<b>Corporate Governance</b>	<b>100%</b>
<b>Disclosure</b>	<b>100%</b>
<b>Supply Chain</b>	<b>100%</b>
<b>Diversity</b>	<b>100%</b>
<b>Misconduct</b>	<b>100%</b>
Board Structure & Self-evaluation	83%
Minority Shareholder Rights	83%
Capital Efficiency	83%
Human Rights & Community	83%
Biodiversity	83%
Waste Management	67%
Environmental Opportunities	67%
Others-Social	67%
Health & Safety	67%
Water Stress & Water Security	67%
Product Liability	67%
Deforestation	67%
Anti-Corruption	67%

<Active managers of domestic equities>

<b>Board Structure &amp; Self-evaluation</b>	<b>100%</b>
<b>Minority Shareholder Rights</b>	<b>100%</b>
<b>Disclosure</b>	<b>100%</b>
Supply Chain	88%
Climate Change	88%
Capital Efficiency	88%
Diversity	75%
Misconduct	75%
Human Rights & Community	75%
Waste Management	75%
Corporate Governance	63%
Environmental Opportunities	63%
Others-Governance	63%
Pollution & Resources	63%
Labor Standards	63%

<Passive managers of foreign equities>

<b>Climate Change</b>	<b>100%</b>
<b>Supply Chain</b>	<b>100%</b>
<b>Disclosure</b>	<b>100%</b>
<b>Diversity</b>	<b>100%</b>
Corporate Governance	75%
Others-Social	75%
Health & Safety	75%
Board Structure & Self-evaluation	75%
Water Stress & Water Security	75%
Others-Governance	75%
Others-Environment	75%
Deforestation	75%
Risk Management	75%
Biodiversity	75%

<Active managers of foreign equities>

<b>Climate Change</b>	<b>100%</b>
Supply Chain	86%
Disclosure	86%
Corporate Governance	86%
Others-Social	86%
Health & Safety	86%
Board Structure & Self-evaluation	86%
Human Rights & Community	86%
Social Opportunities	71%
Diversity	57%
Water Stress & Water Security	57%
Environmental Opportunities	57%
Capital Efficiency	57%
Minority Shareholder Rights	57%
Labor Standards	57%

<Domestic bonds>

<b>Disclosure</b>	<b>100%</b>
Climate Change	93%
Corporate Governance	79%
Board Structure & Self-evaluation	64%
Supply Chain	57%
Diversity	57%
Environmental Opportunities	57%
Misconduct	57%

<Foreign bonds>

Climate Change	95%
Corporate Governance	70%
Health & Safety	70%
Supply Chain	65%
Pollution & Resources	65%
Human Rights & Community	65%
Labor Standards	65%
Anti-Corruption	60%

	... E (Environmental)
	... S (Social)
	... G (Governance)
	... A multiple themes of ESG

Issues pointed out by all managers are shown in red.

(\*) Percentage indicates the ratio of the number of managers that selected the issue. The percentage shown above represents the ratio of the number of managers which selected the relevant issue to the number of active/passive asset managers. If an asset manager for Japanese equities is entrusted to both active and passive mandates, it is counted as the one with larger amount of mandate entrusted by GPIF.

The common change among domestic and foreign passive equity managers in this survey was an increase in the number of managers that view "Biodiversity" as a critical ESG issue. This change may be due in part to the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) in June 2021 to establish a framework for the appropriate assessment and disclosure of risks and opportunities related to natural capital and biodiversity. In addition, the percentage of "Human Rights & Local Communities" has increased for both passive and active domestic equity managers, and along with "Supply Chain" specifically addressing human rights issues in the supply chain, such as responding to the Modern Slavery Act and EU human rights due diligence. It can be seen that various issues are intertwined with each other.

The survey to bond managers was second time. More than 50% of domestic bond managers have newly identified "Supply Chain," "Diversity," "Environment Opportunities," and "Misconduct" as critical issues, and the range of topics has broadened. The issues selected by more than 50% of the foreign bond managers did not change significantly from last year, but the ratios for all of them increased, indicating that more institutions are beginning to focus on them as issues.