



Adoption of ESG Index and Portfolio Adjustment

GPIF has evaluated ESG indices for Japanese equities based on the information submitted through the Index Posting System, which GPIF uses to collect information on a variety of indices. As a result of the evaluation, GPIF has adopted the following index and has begun passive management based on this index from March 2023.

Type	Index Name
Thematic	Morningstar Japan ex-REIT Gender Diversity Tilt Index (“GenDi J”)

<Characteristics of the index>

- Based on the evaluations by Equileap of the initiatives concerning corporate gender diversity, the weighting of constituents is adjusted.
- The number of constituents of the index is 930¹, covering a wide range of domestic listed companies.
- With industry weights neutralized, the index has a low tracking error and low turnover ratio.

Comment from MIYAZONO Masataka, President of GPIF

Based on our belief that the sustainable growth of investee companies and the whole market is crucial for the stable investment returns from assets under management, GPIF takes gender diversity, as one of the ESG factors, into consideration in its passive investment in domestic and foreign equities.

We have newly adopted the Morningstar GenDi J index, and has begun passive investment by withdrawing a portion (equivalent to 500 billion yen) of assets from the passive investment managed under the existing ESG indices and redistributing it to the new index. This adjustment of ESG portfolio is conducted as part of our risk management of the entire portfolio².

ESG investments are implemented from a long-term perspective. Therefore, it is undesirable that the investment performance significantly fluctuates due to factors other than ESG as a result of a bias toward certain sectors or other factors. GPIF will continue to promote ESG investment from the perspective of securing the necessary reserves for the future beneficiaries.

¹As of February 28, 2023.


²For details, please refer to “Initiatives for Improving ESG Passive Equity Investment.”



Morningstar Japan ex-REIT Gender Diversity Tilt Indexes



Overview of New Gender Index for Japanese Equities

Index Name	 <p>MORNINGSTAR GenDi J Japan ex-REIT Gender Diversity Tilt Index TOP CONSTITUENT 2023</p>	Morningstar Japan ex-REIT Gender Diversity Tilt Index (“GenDi J”)
Index Concepts/Characteristics	<ul style="list-style-type: none"> ▪ A tilted gender index that emphasize companies that have strong gender diversity policies embedded in their corporate culture and those that ensure equal opportunities to employees, irrespective of their gender ▪ Equileap’s Gender Equality Scores determine each stock’s Index weight ▪ Neutralizing the industry weighting relative to the parent index will control tracking error and reduce the possibility of significant underperformance relative to the parent index. It also suppresses turnover and reduces transaction costs. 	
Index Construction	<p style="text-align: center;">Tilt</p>	
Constituent Universe (Parentindex)	<p style="text-align: center;">Morningstar Japan ex-REIT Index [930 stocks*]</p>	
Number of Index Constituents	<p style="text-align: center;">930</p>	
GPIF Initial Investment	<p style="text-align: center;">Approx. ¥500billion</p>	

(Note 1) Data as of February 28, 2023

Morningstar Japan ex-REIT Gender Diversity Tilt Index

ESG Rating	Equileap, Gender equality score
Parent Index	Morningstar Japan ex-REIT Index
Issuer Size	Large, Mid, and Small Cap
Screening (controversy, etc.)	Companies with Alarm Bell (track record of legal action taken for sexual harassment and gender discrimination)
Number of Index Constituents	930
Constituent Selection / Weight Calculation Method	Create quintile portfolios based on gender equality score Multiply the constituent weight by the tilt factor for each group (1.5, 1.25, 1.0, 0.75, 0.5)
Restrictions	Individual security weights capped at 5%
Rebalance	Quarterly Rebalance(weight adjustment) Annual Reconstitution(membership reset by the score)

(Note) Data as of February 28, 2023

Constituent Selection and Index Construction

Starting universe

**Morningstar Japan
ex-REIT Index**

Constituent selection

- **Companies that are part of Equileap's Alarm Bell List are ineligible**

Portfolio construction

- **Tilt factor is based on the Equileap Gender Equality Score to determine component weights**
- **Assign sector neutral weight with respect to the benchmark**
- **Individual security weights capped at 5%**

(Note) Equileap monitors incidents involving sexual harassment and gender discrimination. If an identified incident signals structural or systemic problems according to Equileap's methodology, the company receives an alarm bell and becomes ineligible for the index. The alarm bell securities will continue to be part of the controversy list for the next 12 months from the date it was flagged by Equileap.



Gender balance in
leadership &
workforce



Equal
compensation &
work-life balance



Policies promoting
gender equality



Commitment,
transparency &
accountability

- Screening process considers the four categories of the Equileap Gender Equality Scorecard™
- Companies are awarded an overall score based on commitment to equality in the workplace
- Companies are divided into five equally sized groups by count based on their Gender Equality Score
- Float-adjusted market cap is used alongside tilt factor to arrive at the final weight
- Sector weights are held constant with respect to the parent Index at each reconstitution



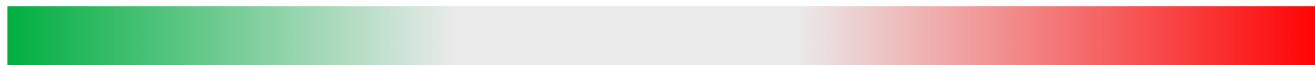
Details of Gender Equality Score

Category A Gender Balance in Leadership & Workforce (40%)	Board of Directors	Gender balance of the company's board of directors and non-executive board (or supervisory board)
	Executives	Gender balance of the company's executives and executive board
	Senior Management	Gender balance of the company's senior management
	Workforce	Gender balance of the company's workforce
	Promotion & Career Development Opportunities	Gender balance of the company's senior management compared to the gender balance of the company's workforce, signalling career progression opportunities
Category B Equal Compensation & Work-Life Balance (30%)	Living Wage	Commitment to pay a living wage to all employees
	Gender Pay Gap	Transparency on gender pay data, strategy to close any gender pay gap and detailed performance in achieving this
	Parental Leave	Paid leave programs (at least 2/3 paid) for child care to both primary or secondary carers globally or at least in the country of incorporation
	Flexible Work Options	Option to employees to control and / or vary the start and end times of the work day, and / or vary the location from which employees work
Category C Policies promoting Gender Equality (20%)	Training & Career Development	Commitment to ensure equal access to training and career development irrespective of gender
	Recruitment Strategy	Commitment to ensure non-discrimination against any type of demographic group and equal opportunities to ensure gender parity
	Freedom from Violence, Abuse & Sexual Harassment	Prohibits all forms of violence in the workplace, including verbal, physical and sexual harassment
	Safety at Work	Commitment to the safety of employees in the workplace, in travel to and from the workplace and on company related business, as well as safety of vendors in the workplace
	Human Rights	Commitment to ensure the protection of human rights, including employees' rights to participate in legal, civic and political affairs
	Social Supply Chain	Commitment to reduce social risks in its supply chain such as forbid business related activities that condone, support, or otherwise participate in trafficking, force and child labor or sexual exploitation
	Supplier Diversity	Commitment to ensure diversity in the supply chain, including support for women owned businesses in the supply chain
Category D Commitment, Transparency & Accountability (10%)	Employee Protection	Systems and policies for the reporting of internal ethical compliance complaints without retaliation or retribution, such as access to confidential third-party ethics hotlines or systems for confidential written complaints
	Commitment to Women's Empowerment	Signatory to the UN Women's Empowerment Principles
	Audit	Undertaken and awarded an independent gender audit certificate by an Equileap recognized body

(Top Group has higher scores)

Top Group

Bottom Group



- **All eligible constituents are sorted in descending order of their Equileap gender equality score**
- **Securities are divided into five equally sized groups by count based on their Gender Equality Score**
- **Float-adjusted market cap is used alongside tilt factor to arrive at the final weight**
- **Sector weights are held constant with respect to the parent Index at each reconstitution**



Overview of Morningstar Inc. and Equileap

Morningstar Inc.

- Morningstar, Inc. is a leading provider of independent investment insights, listed on the NASDAQ Stock Exchange (MORN), A PRI Signatory.
- The Company offers an extensive line of products and services for both individual investors and institutional investors through subsidiaries in 32 countries.
- Morningstar Indexes translates Morningstar's intellectual capital based on its equity research and other various research into investable index solutions across all major asset classes with over \$496 billion in AUM of December 31, 2022.
- In 2020, Morningstar finalized the acquisition of Sustainalytics, a globally recognized leader in environmental, social and governance (ESG) ratings and research.
- All global solutions and products of Morningstar Inc. including index solutions are provided in Japan through Ibbotson Associates Japan Inc., an affiliate of Morningstar Inc.

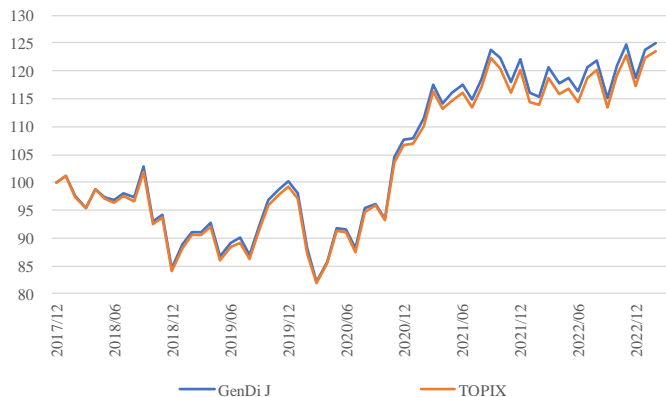
Equileap

- Equileap is a leading provider of data and insights on gender equality in the corporate sector.
- Equileap was founded in 2016 in Amsterdam. Their mission was to take a leap towards gender equality in the workplace.
- Equileap's proprietary Gender Equality Scorecard™ is the methodology used globally to holistically assess a company's gender equality performance.
- Equileap is assessing companies globally on 19 criteria including gender balance, the gender pay gap, paid parental leave and anti-sexual harassment policies.

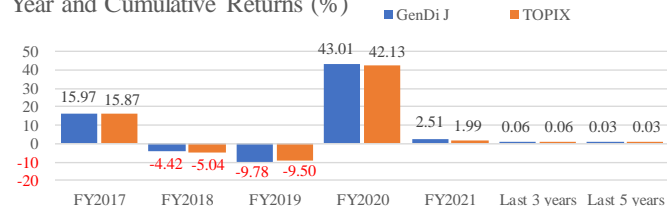


GenDi J Performance Backtest

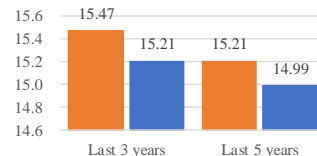
Cumulative Returns (As of Dec. 2017 = 100)



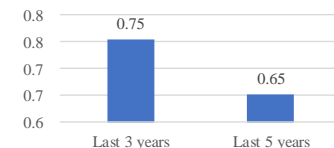
Year and Cumulative Returns (%)



Total risk (%)



Tracking error (%)



Last 3 years

GenDi J

TOPIX

a Total Return	5.83%	5.70%
b Total risk	15.47%	15.21%
c Return/Risk(a/b)	0.38	0.37
d Excess Returns	0.13%	
e Tracking error	0.75%	
f Information Ratio(d/e)	0.17	

Last 5 years

GenDi J

TOPIX

a Total Return	3.49%	3.23%
b Total risk	15.21%	14.99%
c Return/Risk(a/b)	0.23	0.22
d Excess Returns	0.26%	
e Tracking error	0.65%	
f Information Ratio(d/e)	0.46	

(Note) Data is based on data up to the end of December 2022.

