



“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 2022	Climate Change, Misconduct, Disclosure, Supply Chain, Diversity, Corporate Governance, <u>Human Rights & Community</u>	Board Structure & Self-evaluation, Minority Shareholder Rights, Disclosure, <u>Capital Efficiency</u> , <u>Climate Change</u>
Y 2021	Climate Change, Misconduct, Disclosure, Supply Chain, Diversity, Corporate Governance	Board Structure & Self-evaluation, Minority Shareholder Rights, Disclosure
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 2022	Climate Change, Diversity, Disclosure, <u>Human Rights & Community</u> , <u>Health & Safety</u> , <u>Biodiversity</u> , <u>Deforestation</u> , <u>Others (Governance)</u>	N/A
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 2022	Disclosure
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 are newly selected from all the managers this time compared to the previous survey.

< Domestic equities >

GPIF asked external asset managers entrusted with equity investment about critical ESG issues since 2018. This is the fifth survey to equity managers.

"Human Rights & Community" was newly listed as a critical ESG issue by all passive managers this time. The Modern Slavery Act is now in force in European countries, and EU human rights due diligence is also required. As a result, there have been cases in which companies have been requested to consider human rights by suppliers and customers in their supply chains. In some cases, companies are facing an increased risk of more direct economic impact beyond reputational risk, and Human Rights is also becoming a critical issue for Japanese companies doing business overseas. In December 2022, The PRI launched "Advance," a new stewardship initiative where institutional investors work together to take action on human rights and social issues. Therefore, institutional investors' interests are also increasing.

In addition, all active managers newly chose "Climate Change" and "Capital Efficiency" in this survey, and all of passive and active managers consider "Climate Change" to be a common and critical issue. Meanwhile, except for "Disclosure" and "Climate Change," 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," "Minority Shareholder Rights," and "Capital Efficiency" more critical ESG issues, and passive managers recognizing a wide range of long-term issues including E (environmental) and S (social) issues such as "Diversity," "Supply Chain," and "Misconduct" as more critical, which is the same as before.

< Foreign equities >

Changes since last year: all foreign equity passive managers identified "Human Rights & Community," "Health & Safety," "Biodiversity," "Deforestation," and "Others (Governance)" as critical ESG issues. While the selection of "Human Rights & Community" is similar to that of the domestic equity passive managers, the unique feature of the result of this year's survey is that all foreign equity passive managers also selected "E (Environmental)" issues such as "Biodiversity" and "Deforestation," which are closely related to climate change.

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.

< Domestic bonds >

GPIF also have asked external asset managers entrusted with bond investment about critical ESG issues considered from the perspective of corporate bond investors from Year of 2020. The survey to bond managers was third time. All domestic bond managers identified "Disclosure" as a critical issue for the third 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 companies.

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 >

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

< Active managers of domestic equities >

Climate Change	100%
Disclosure	100%
Minority Shareholder Rights	100%
Board Structure, Self-evaluation	100%
Capital Efficiency	100%
Misconduct	86%
Diversity	86%
Supply Chain	71%
Others (Governance)	71%
Corporate Governance	71%
Labor Standards	71%
Human Rights & Community	71%
Waste Management	57%
Biodiversity	57%
Environmental Opportunities	57%
Pollution & Resources	57%
Health & Safety	57%

< Passive managers of foreign equities >

Climate Change	100%
Disclosure	100%
Diversity	100%
Biodiversity	100%
Human Rights & Community	100%
Health & Safety	100%
Deforestation	100%
Others (Governance)	100%
Corporate Governance	75%
Board Structure, Self-evaluation	75%
Labor Standards	75%
Capital Efficiency	75%
Water Stress, Water Security	75%
Others	75%
Supply Chain	75%
Risk Management	75%
Minority Shareholder Rights	75%
Environmental Opportunities	75%
Others (Environment)	75%

< Active managers of foreign equities >

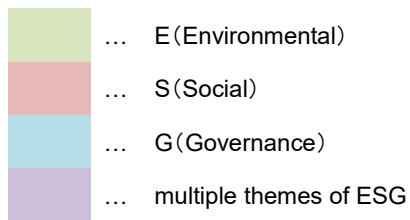
Climate Change	86%
Disclosure	71%
Corporate Governance	71%
Board Structure, Self-evaluation	71%
Diversity	67%
Biodiversity	57%
Human Rights & Community	57%
Health & Safety	57%
Labor Standards	52%

< Asset managers of Domestic bonds >

Disclosure	100%
Climate Change	93%
Corporate Governance	86%
Supply Chain	71%
Board Structure, Self-evaluation	71%
Human Rights & Community	71%
Misconduct	64%
Labor Standards	64%
Diversity	64%
Environmental Opportunities	57%

< Asset managers of Foreign bonds >

Climate Change	88%
Human Rights & Community	76%
Supply Chain	71%
Pollution & Resources	65%
Corporate Governance	65%
Diversity	65%
Waste Management	59%
Disclosure	59%
Anti-Corruption	59%
Deforestation	53%
Water Stress, Water Security	53%
Others	53%
Board Structure, Self-evaluation	53%
Health & Safety	53%
Product Liability	53%
Labor Standards	53%



Issues pointed out by all managers are shown in red.

(*) Percentage indicates 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 domestic equities is entrusted to both active and passive mandates, it is counted as the one with larger amount of mandate entrusted by GPIF.

For the foreign equities active managers, the result includes the responses from asset managers that GPIF starts to entrust FY2022.