




# Stewardship Activities Report 2020-2021

March 2021

The background features a light blue gradient with abstract geometric shapes in various shades of blue. On the right side, there are patterns including a repeating Greek key (meander) motif and a triangular arrangement of small, interconnected geometric shapes.

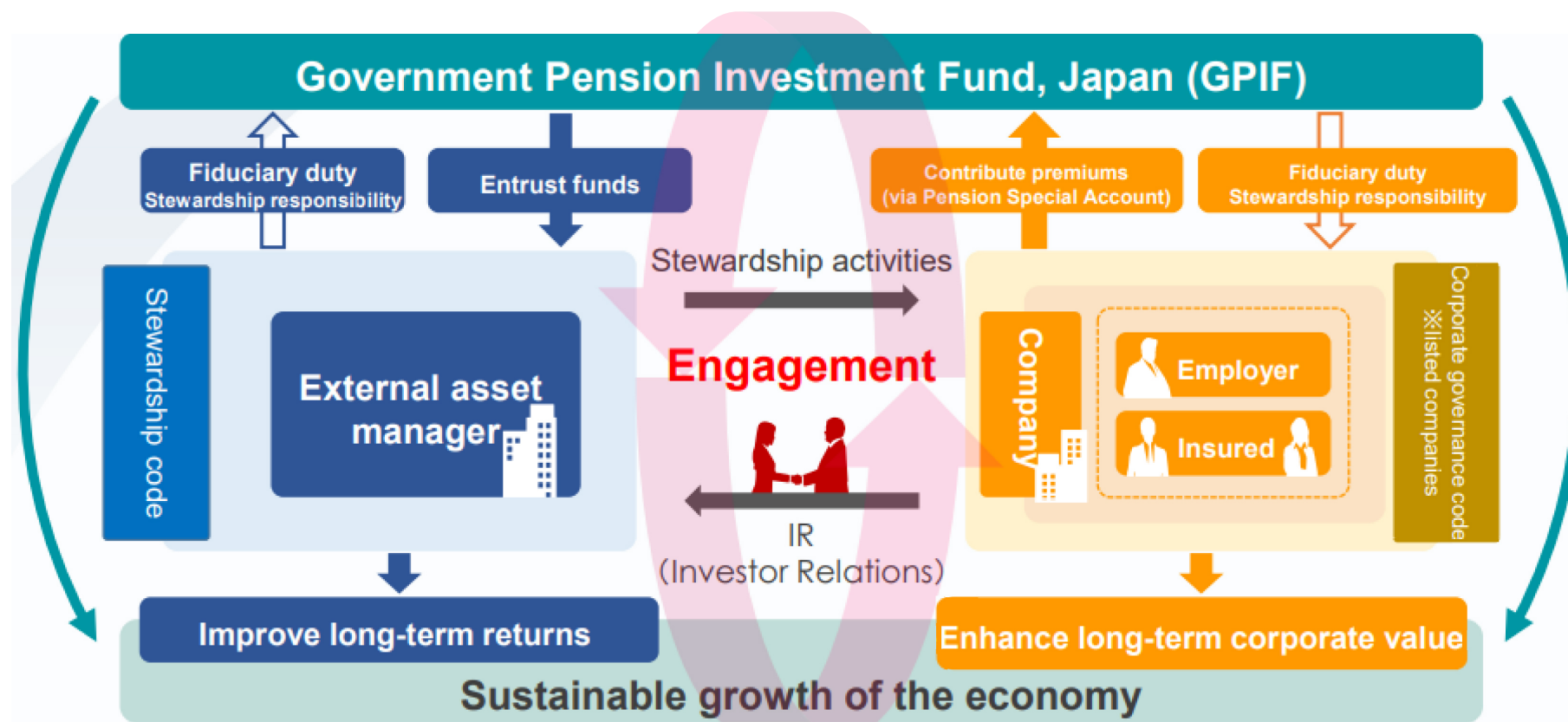
For increasing long-term investment returns, GPIF will fulfill its stewardship responsibilities by promoting various activities to encourage long-term perspectives and the sustainable growth of investee companies and the whole capital market.



# **1. Stewardship & ESG Activities of GPIF**

# 1. Stewardship Activities for GPIF

GPIF is a **universal owner** with a very large fund size and a widely diversified portfolio, and a **cross-generational investor** designed as a part of a 100-year sustainable pension scheme. Given such features, prevention of activities that impede corporates' long-term growth as well as sustainability of the overall capital market is essential for us to secure our long-term investment returns. GPIF contributes towards the sustainable growth of the capital market through the following activities. As GPIF invests in equities and exercises voting rights through its external asset managers, **we promote constructive dialogues (engagement) between asset managers and investee companies, taking into consideration ESG factors that contributes to sustainable growth. Improvement of long-term corporate value will lead to growth of the overall economy, which will eventually enhance our investment returns. GPIF shall fulfill our stewardship responsibilities by promoting engagement and building a win-win environment in the investment chain.**



## 2. History of GPIF's Stewardship Activities

2014-15

May 2014  
Accepted Japan's Stewardship Code.  
Established "Policy to Fulfill Stewardship Responsibilities."

March 2015  
Established "Investment Principles."

▶ "Stewardship activities in equity investment."

September 2015  
Signed "Principles for Responsible Investment (PRI)."  
▶ Enhanced initiatives for ESG.

2016-17

July 2016  
Established "Business and Asset Owners' Forum" and "Global Asset Owners' Forum."  
▶ Exchange of opinions on stewardship, ESG, etc.

June 2017  
Established "Stewardship Principles" and "Proxy Voting Principles."  
▶ Requested compliance from asset managers for equity investment.

August 2017  
Endorsed the revised Japan's Stewardship Code.

October 2017  
Partial revision to "Investment Principles."  
▶ Stewardship activities including ESG-oriented initiatives were expanded to all assets.

2018-19

November 2019  
Partial revision to "Policy to Fulfill Stewardship Responsibilities."  
▶ Focused on prevention of activities that impede long-term corporate growth to achieve sustainable growth of the overall markets.

▶ Contribute to sustainable growth of markets.

2020-21

February 2020  
Partial revisions to "Stewardship Principles" and "Proxy Voting Principles."  
▶ Requested compliance from managers of all domestic and foreign assets.

April 2020  
Partial revisions to "Investment Principles"  
▶ Following the revisions to the Basic Policy of Reserves, the revised Principle describes investments taking into consideration the sustainable growth of investee companies and the capital market as a whole as well as ESG.

June 2020  
Endorsed the second revision to Japan's Stewardship Code.

Partial revision to "Policy to Fulfill Stewardship Responsibilities"  
▶ The scope of subject assets was expanded to all domestic and foreign assets.  
▶ Consideration of ESG factors has been further clarified.



## 2. History of GPIF's Stewardship Activities

### ■ Status of participation in global initiatives

*Signatory of:*



#### Joined in October 2018

A five-year initiative led by investors, established in September 2017. Via dialogues with companies that are significantly influential in formulating possible solutions to global environmental issues, it focuses on the improvement of climate change-related governance, initiatives for the reduction of greenhouse gas emissions, the enhancement of information disclosure, etc. **GPIF, as an asset owner, has also joined its Asia Advisory Group, which provides the steering committee with advice on the characteristics of the Asian region.**



#### Supported in December 2018

Established by the FSB (Financial Stability Board) at the request of the G20 Finance Ministers and Central Bank Governors Meeting. In June 2017, the TCFD published voluntary recommendations to encourage information disclosure on the financial impact of climate-related risks and opportunities to enable appropriate investment decisions by investors.



#### Signed in September 2015

Six principles advocated in 2006 by Mr. Annan, then Secretary General of the United Nations, which demand institutional investors to include ESG in the investment process.

**Joined the Asset Owner Advisory Committee, SDGs Advisory Committee, Japan Network Advisory Committee, etc. GPIF acquired A+, the highest score, in the module "strategy and governance" in the 2020 assessment.**



**Joined the 30% Club in the U.K., and the Thirty Percent Coalition of the U.S. in November 2016. Joined the 30% Club in Japan in December 2019.**

Established to seek diversity in boards of directors, with the aim of achieving 30% female directors.



## ICGN

International Corporate Governance Network

#### Joined in August 2019

An industry association established by institutional investors, focusing on improvement of corporate governance and encouragement of stewardship activities with the aim of promoting efficient markets and sustainable economy.



## Council of Institutional Investors®

The voice of corporate governance

#### Joined in August 2019

Established by a U.S. public pension fund with the aim of promoting shareholders' rights and corporate governance and collaborating in the U.S.

### 3. Revisions to Principles and Policies: Investment Principles

#### ■ Partial Revisions to the Investment Principles

- Partial revisions were made to the Investment Principles on April 1 2020. (See page 8)
- The revisions were made following the amendment (amended on February 27, 2020, and effective on April 1, 2020) to the “Basic Policy for Safe and Efficient Management and Investment of Reserves from a Long-term Perspective” (hereinafter, “Basic Policy of Reserves”) and in line with the Fourth Medium-term Plan.
- The principal revisions to the Basic Policy of Reserves are outlined below. These revisions were reflected in the Investment Principles.
  - (1) The concept behind ESG investment\* (see Reference below) is clarified in the Basic Policy.
  - (2) The Basic Policy of Reserves clarified that the yields on the entire assets under management will be evaluated using compound benchmarks, etc.

The following three points were revised in the Investment Principles.

- |  |   |
|--|---|
| <b>(1) Investments considering ESG factors</b>                                   | ⇒ Paragraph 4 of the Investment Principles newly included investments with consideration of ESG factors.                      |
| <b>(2) Evaluation of investment yields on the entire assets under management</b> | ⇒ Paragraph 3 of the Investment Principles was partly revised in terms of the relevant investments.                           |
| <b>(3) Stewardship responsibilities</b>  | ⇒ The item of stewardship responsibilities was partially revised and transferred to paragraph 5 of the Investment Principles. |

- As to stewardship responsibilities, the revisions newly mentioned growth of the whole capital market from the viewpoint to clarify that it is indispensable for GPIF as a universal owner and a cross-generational investor that the whole capital market grows sustainably over the long term.

\*Reference: Excerpts of the relevant paragraph from the Basic Policy of Reserves

Based on the concept that the sustainability of investee companies and the whole capital market will be critical for the expansion of long-term investment returns in the management of pension reserves, the reserve funds shall implement necessary initiatives by individually examining the promotion of investments that consider ESG (environmental, social and governance) as non-financial factors in addition to financial factors, from the viewpoint of securing long-term returns for the interest of beneficiaries.

### 3. Revisions to Principles and Policies: Investment Principles

## Investment Principles

March 26th, 2015

Revised: October 2nd, 2017

Last revised: April 1st, 2020

1. Our overarching goal is to contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective, to the sole benefit of pension recipients.
2. Our primary investment strategy is diversification by asset class, region, and timeframe. While market prices may fluctuate in the short term, GPIF will take full advantage of our long-term investment horizon to achieve investment returns in a more stable and efficient manner, while simultaneously ensuring sufficient liquidity to pay pension benefits.
3. We formulate our overall policy asset mix and manage risks at the portfolio, asset class, and investment manager level. We utilize both passive and active management in order to achieve benchmark returns (i.e., average market returns) and seek untapped profitable investment opportunities.
4. We believe that sustainable growth of investee companies and the capital market as a whole are vital in enhancing long-term investment returns. In order to secure such returns for pension beneficiaries, therefore, we promote the incorporation of non-financial environmental, social, and governance (ESG) factors into the investment process in addition to financial factors.
5. In order to enhance long-term investment returns and fulfill our stewardship responsibilities, we shall advance various initiatives (including the consideration of ESG factors) that promote long-termism and the sustainable growth of investee companies and the capital market as a whole.



### 3. Revisions to Principles and Policies: Responses to Stewardship Code

On March 24, 2020, a second revision to Japan's Stewardship Code was implemented. In this second revision, consideration of sustainability for asset management strategy (medium- to long-term sustainability including ESG factors) was added to the definitions of stewardship responsibilities, and other assets in addition to Japanese listed equity were also included in the scope of assets.

GPIF endorsed the second revision to Japan's Stewardship Code and is determined to fulfill its responsibilities as an asset owner which is required by the Code.

#### ■ Endorsement to the second revision of the Code and partial revisions to the Policy to Fulfill Stewardship Responsibilities

- GPIF endorsed Japan's Stewardship Code which had been re-revised on March 24, 2020 ("the second revision to the Code"), and made partial revisions to "the Policy to Fulfill Stewardship Responsibilities" on June 29, 2020.
- The principal changes to the Policy to Fulfill Stewardship Responsibilities are outlined below.
  - The scope of assets was expanded from equity to all assets. In line with the Investment Principles and other principles, the scope of assets was expanded from equity to all assets. We continue to require our external managers to comply with the Stewardship Principles and Proxy Voting Principles. Should an asset manager decide not to comply with any of the principles in light of respective situations such as the characteristics and investment styles of their assets under management, they are required to explain their rationale for non-compliance to GPIF.
  - As to responses to each principle of the Code, consideration of ESG factors has been clarified. Consideration of ESG factors is explained in Principles 1 and 7.
  - It was added that our external asset managers are required to disclose their rationale of exercise of voting rights in accordance with importance or if needed (Principle 5).

## 4. Initiatives for the Sustainable Growth of the Whole Capital Market

It is indispensable for GPIF as a cross-generational investor and a universal owner that the whole capital market grows in a sustainable manner. Prohibited from conducting in-house management of equity investment by the relevant law, GPIF invests and exercises voting rights through external asset managers. Therefore, GPIF promotes dialogues between its external asset managers and investee companies. GPIF believes that disclosure is important for both parties to conduct efficient dialogues. Particularly, disclosure of ESG information is likely to increase in importance as disclosure of non-financial information becomes more important going forward. GPIF agreed to the purpose for the establishment of JPX ESG Knowledge Hub, and participated as a supporter.

### ■ Participation in JPX ESG Knowledge Hub

- ESG Knowledge Hub was established in November 2020 by JPX based on perspectives for encouraging ESG disclosures by listed companies with the intention of providing one-stop access to contents and information that explain ESG investments, and to make ESG Knowledge Hub a community that connects listed companies, investors and related institutions in the future.
- The purposes of ESG Knowledge Hub match the significance of GPIF's stewardship activities to encourage engagement between its external asset managers and investee companies taking into consideration ESG factors that contribute to sustainable growth. GPIF believes that the progress of ESG disclosure by listed Japanese companies will enhance the level of the Japanese stock market.
- Agreeing with the purpose of the establishment, GPIF participated from the beginning as a “supporter,” a qualification for participation as an investor and related organization. (At the time of establishment, the 28 supporters that participated were domestic and overseas investors and related organizations including governmental ministries and agencies.)
- GPIF, as an asset owner, will endeavor to promote constructive dialogues (engagement) taking into consideration ESG factors through its activities as a supporter.



(Overview of GPIF)

<https://www.jpj.co.jp/corporate/sustainability/esgknowledgehub/esg-investor/10.html>

(Practical Seminars for ESG Disclosure)

<https://www.jpj.co.jp/corporate/sustainability/esgknowledgehub/practical-disclosure-seminar/2020-104.html>

## 5. Promotion of ESG Activities

Based on the concept that the sustainable growth of investee companies and the whole capital market will be required for the improvement of investment returns, GPIF promotes ESG activities. On the assumption that ESG activities will reduce risks, GPIF believes that the longer the investment horizon is, the greater the risk-adjusted return will improve.

### ■ Checking support for the PRI and TCFD Recommendations

- In the Stewardship Principles, GPIF has stipulated “ESG integration into the investment process” and requires its external asset managers to sign the PRI. In the revision in February 2020, GPIF also required its external asset managers to proactively participate in various initiatives concerning ESG.
- GPIF conducted a questionnaire survey and interviews with its external asset managers entrusted with equity and fixed-income investments concerning the status of their participation in initiatives such as PRI and TCFD recommendations. The status of support for the PRI and participation in TCFD recommendations, to which an increasing number of Japanese companies have expressed their support as an example of initiatives, and the status of their disclosure are outlined below.
- All external asset managers entrusted with equity, fixed-income and alternative asset investments are signatories of the PRI.
- More than 90% of external asset managers expressed their support for TCFD. Almost one-quarter of them expressed their support in 2020 and thereafter, which shows that support has been further increasing during the past one year. Even in the case of asset managers who have not expressed their support, a large part of them supported TCFD in their groups as a whole, or are currently considering their stance.
- Meanwhile, external asset managers which have already implemented disclosure in accordance with the TCFD recommendations account for 76% of those who expressed their support, which demonstrates the mixed status of disclosure. Various forms of disclosure included issuance of independent publications such as TCFD Report or Climate Report, and other asset managers made disclosure as part of sustainability report and the like. There are also asset managers who posted descriptions on their websites and in the reporting according to the PRI. Thus, we found that many asset managers are positive to better disclosure in any way by trying various methods.
- There are many cases in which TCFD disclosure is the theme of engagement with investee companies. Therefore, knowledge and experience of disclosure by the relevant asset managers are likely to serve as reference and encouragement to corporate disclosure while sharing the present status.

## 5. Promotion of ESG Activities

### ■ Critical ESG issues listed by asset managers

- In the Stewardship Principles, GPIF states “ESG integration into the investment process.” Accordingly, GPIF continued from the previous year to conduct a questionnaire survey and interviews concerning “Critical ESG issues” selected by each external asset manager.
- Please refer to pages 33 and 34 for “Critical ESG Issues” chosen by asset managers entrusted with equity investment.
- Based on the results, GPIF ascertains why they highlighted such issues and how they engage with investee companies regarding these topics.
- This time, GPIF also ascertained the “Critical ESG issues” considered by each asset manager entrusted with fixed-income investment (see page 35). Questions on fixed-income investment were asked on the assumption of corporate bonds. As for government and public bonds, GPIF received separate answers based on the open-ended method if asset managers established critical ESG issues.
- In order to promote constructive dialogue between investee companies and investors, GPIF also asked investee companies their principle ESG themes in the “6th Questionnaire Survey on Stewardship Activities by Institutional Investors” conducted in January 2021.

### ■ ESG integration

- As mentioned on the above, GPIF is committed to “ESG integration into the investment process” in the Stewardship Principles. In the Stewardship Activities Report 2019, GPIF stated “ESG integration across different investment styles” under the section of “Expectations and Challenges for External Asset Managers”.
- As a signatory to PRI, GPIF defines ESG integration in accordance with PRI’s definition as follows.

**“ESG should be expressly and systematically incorporated in investment analysis and investment decisions.”**

<Assessment of ESG Integration>

- From the comprehensive assessment (equity and fixed-income investments) conducted in 2019, GPIF included the assessment of ESG Integration as part of “Investment process.” ESG Policy, collection and analysis of importance of ESG information, changes in impact on the corporate sector, application to investment decisions, etc. are assessed in the management process.
- ESG-related engagement and exercise of voting rights are assessed as part of the “Stewardship Activities” as have been conducted to date.

## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Engagement with external asset managers

- Regarding communication with external asset managers, GPIF has shifted from a one-way annual monitoring model to an “engagement” model, focusing on two-way communication and exchanging views on stewardship responsibilities, as stated in the “Summary Report of GPIF’s Stewardship Activities in 2016.” Accordingly, GPIF has called meetings and conducted surveys on particular themes or as required, in the form of stewardship meetings, etc., in addition to holding an annual assessment meeting.
- In 2020, amid the Covid-19 pandemic, our discussion meetings have been basically shifted from face-to-face meetings to Web conferences since April 2020. By using the Web conference system, we held dialogues with external asset managers including those based outside Japan more often than ever. Particularly from April to June, we exchanged opinions on the core themes including the stewardship activities we should pursue based on long-term perspectives toward the future after the COVID-19 pandemic, dialogues with companies under crisis, and exercise of voting rights.
- GPIF also began continuous dialogues with the management teams of external asset managers over the limits of mandate. It was extremely useful for us, in promoting mutual understanding, to exchange opinions with the management teams of external asset managers and relevant sections on the themes ranging from how asset management companies should be in terms of not only asset management business and stewardship activities, future perspectives but also new ideas. Therefore, we will continue this dialogue in the future.
- GPIF also held briefings for external asset managers in addition to individual meetings when we established new policies and implement significant changes. We focus on two-way communication by exchanging opinions and providing feedback in order to fully explain the background and concepts of these policies and changes, through Q&A sessions and follow-up questionnaires. With the change in GPIF’s management system in 2020, GPIF implemented engagement individually concerning its way of thinking and requirements for external asset managers. In addition, GPIF held briefings for external asset managers as follows.

#### <Briefing for external asset managers>

- Briefing for external asset managers (November 2020)  
GPIF explained and exchanged opinions concerning changes in business management systems, changes in guidelines, Stewardship Principles, Proxy Voting Principles, and schedules for future assessment of stewardship activities of external asset managers engaged with fixed-income investment.



## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Engagement with external asset managers (continued)

#### <Request for disclosure of the details of proxy voting records>

In the Proxy Voting Principles, GPIF asks its external asset managers to publicly disclose proxy voting records for each investee company. The following are asset managers for domestic equities who have already disclosed them publicly. It should be noted, however, that the frequency and details of the disclosure vary depending on each asset manager, and GPIF will continue to conduct engagement for the improvement of disclosure.

#### [Asset managers that have publicly disclosed the details of proxy voting records (GPIF's external asset managers for domestic equities)]

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>✓ Asset Management One<br/><a href="http://www.am-one.co.jp/company/voting/">http://www.am-one.co.jp/company/voting/</a></li> <li>✓ Eastspring Investments<br/>(Eastspring Investments (Singapore) Limited)<br/><a href="https://www.eastspring.co.jp/about-us/our-policy/voting-rights">https://www.eastspring.co.jp/about-us/our-policy/voting-rights</a></li> <li>✓ Invesco Asset Management (Japan)<br/><a href="http://www.invesco.co.jp/footer/proxy.html">http://www.invesco.co.jp/footer/proxy.html</a></li> <li>✓ Capital International (Capital International, Inc.)<br/><a href="https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html">https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html</a></li> <li>✓ Goldman Sachs Asset Management<br/>(Goldman Sachs Asset Management, L.P., etc.)<br/><a href="https://www.gsam.com/content/gsam/jpn/ja/gsitm/about-gsam/stewardship-code.html">https://www.gsam.com/content/gsam/jpn/ja/gsitm/about-gsam/stewardship-code.html</a></li> <li>✓ JPMorgan Asset Management (Japan)<br/><a href="https://www.jpmorganasset.co.jp/wps/portal/Policy/Guideline">https://www.jpmorganasset.co.jp/wps/portal/Policy/Guideline</a></li> <li>✓ Schroders Investment Management (Japan)<br/><a href="http://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/">http://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/</a></li> <li>✓ Nikko Asset Management<br/><a href="http://www.nikkoam.com/about/vote/results">http://www.nikkoam.com/about/vote/results</a></li> </ul> | <ul style="list-style-type: none"> <li>✓ Nomura Asset Management<br/><a href="http://www.nomura-am.co.jp/corporate/service/responsibility_investment/vote.html">http://www.nomura-am.co.jp/corporate/service/responsibility_investment/vote.html</a></li> <li>✓ Nomura Asset Management (Dimensional Fund Advisors LP)<br/><a href="https://us.dimensional.com/about-us/investment-stewardship">https://us.dimensional.com/about-us/investment-stewardship</a></li> <li>✓ FIL Investments (Japan)<br/><a href="https://www.fidelity.co.jp/about-fidelity/policies/investment/voting">https://www.fidelity.co.jp/about-fidelity/policies/investment/voting</a></li> <li>✓ BlackRock Japan<br/><a href="https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting">https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting</a></li> <li>✓ Sumitomo Mitsui DS Asset Management<br/><a href="https://www.smd-am.co.jp/corporate/responsible_investment/voting/report/">https://www.smd-am.co.jp/corporate/responsible_investment/voting/report/</a></li> <li>✓ Sumitomo Mitsui Trust Asset Management<br/><a href="http://www.smtam.jp/company/policy/voting/result/">http://www.smtam.jp/company/policy/voting/result/</a><br/>Mitsubishi UFJ Trust and Banking<br/><a href="https://www.tr.mufig.jp/houjin/jutaku/about_stewardship.html">https://www.tr.mufig.jp/houjin/jutaku/about_stewardship.html</a></li> <li>✓ Russell Investments Japan<br/>(Russell Investments Implementation Services, LLC.)<br/><a href="https://russellinvestments.com/jp/legal/proxy">https://russellinvestments.com/jp/legal/proxy</a></li> <li>✓ Resona Asset Management<br/><a href="https://www.resona-am.co.jp/investors/giketuken.html">https://www.resona-am.co.jp/investors/giketuken.html</a></li> </ul> |
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Note: Names in parentheses indicate subcontractors.  
URLs are based on information as of March 1, 2021.

## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Assessment of “Stewardship Activities” by asset managers for equity investment

- A comprehensive assessment of asset managers is conducted through qualitative assessment while taking into consideration quantitative achievements.
- Approximately 90% of GPIF’s equity is passively managed, and GPIF invests in a wide range of listed companies. For the improvement of returns for GPIF, the sustainability of the entire market is crucial. Therefore, GPIF believes that it is critical for passive managers to implement engagement activities, which would encourage investee companies to increase their corporate value and the sustainable growth of the entire market from the long-term perspectives.
- In Japan’s Stewardship Code revised in May 2017, the importance of dialogue in passive investment is clarified. Furthermore, the possibility of collaborative engagement is also referred to as a means of dialogue.
- Furthermore, in the second revision of the Stewardship Code published in March 2020, “consideration of sustainability consistent with investment management strategies (medium- to long-term sustainability including ESG factors)” was added to the definitions of the Stewardship Responsibilities. Thus, the importance of ESG has been increasing more and more to fulfill stewardship responsibilities.
- The second revision clarifies the expectations for Stewardship activities with consideration of ESG factors, particularly its significance in passive investment. GPIF highly evaluates asset managers who fulfill stewardship responsibilities more effectively if the preconditions are similar.
- With respect to Stewardship activities, passive managers are assessed in terms of their contribution to the sustainable growth of the market, whereas active managers are assessed in terms of their contribution to increasing shareholder value of the investee companies in the long run.

Weight	Equity passive	Equity active
Investment policy, investment process, organization, human resources, etc.	70%	90%
<b>Stewardship responsibilities</b>	<b>30%</b>	<b>10%</b>
	↓	↓
Viewpoints of assessment of stewardship activities	Contribution to the sustainable growth of the market	Contribution to increasing shareholder value of the investee companies in the long term
Base for the assessment	(Common to both passive and active) Stewardship Code, GPIF’s Stewardship Principles and Proxy Voting Principles	

## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Assessment of “Stewardship Activities” by asset managers for equity investment (continued)

- Since the introduction of the Stewardship Code in 2014, the stewardship activities of asset managers have been formalistically well organized. Following the second revision of the Stewardship Code, GPIF changed the assessment system of initiatives for stewardship responsibilities to an assessment system for more substantial activities, and a new assessment system has been adopted since a comprehensive assessment system began in 2020.
- Specifically, we focused on the following points, and exchanged opinions on how they are working on stewardship activities. We also referred to information obtained from external providers.
  - ✓ Frameworks (organizations, management of conflicts of interest)
  - ✓ Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)
  - ✓ Stewardship activities (policy, current actions, implementation of engagement)
  - ✓ ESG activities including responses to their critical ESG issues selected by GPIF’s asset managers
  - ✓ Exercise of voting rights (topics, cases where judgments are divided at each external asset manager, process of judgments on exercising shareholder proposals, etc.)
  - ✓ Responses to the GPIF’s Stewardship Principles and Proxy Voting Principles in disclosing the details of proxy voting records, etc.
- In cases we acknowledge concerns about governance of external asset managers, such as conflicts of interest, through reports and interviews, GPIF communicates its concerns and engages in various opportunities, aiming to alleviate such concerns.

## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Assessment of “Stewardship Activities” for Other Assets

#### <Fixed income investment>

- The scope of assets under the Stewardship Responsibilities was expanded to all assets in accordance with the revised UK Stewardship Code which took effect in January 2020 (“The UK Stewardship Code 2020”). Furthermore, it was explicitly stated in the second revision of Japan’s Stewardship Code revised in March 2020 (hereinafter, “Revised Code”) that other assets also became applicable although the assets subject to assessment had been assumed to be Japanese listed equities. Accordingly, it seems that the stewardship activities of fixed-income investors will make further progress.
- On the back of this trend, more and more Japanese and foreign asset managers engaged with fixed-asset investment have expanded their scope of stewardship activities including ESG integration and ESG engagement. Some foreign asset managers engaged with fixed-income investment have begun to invite supervisors responsible for stewardship and ESG from outside of their organizations.
- After Japan’s Stewardship Code was revised for the second time, GPIF asked its external asset managers engaged with fixed-income investment about signing the Revised Code, and found that those who signed it accounted for over 70%. It was also ascertained that over 60% of those that haven’t signed the Revised Code had already signed the UK Stewardship Code 2020, and that the signatories to either Japan’s or UK Stewardship Code accounted for just under 90% of asset managers engaged with fixed-income investment. The signatories to the Revision Code who answered that the scope of assets subject to the Code covered fixed-income accounted for almost 50%.
- As of today, GPIF does not assess stewardship activities for fixed-income investment, while in 2020, a questionnaire survey on the stewardship activities for fixed-income investment was conducted to asset managers engaged with fixed-income investment. Thus, GPIF ascertained the current initiatives for the whole stewardship activities including the implementation status of engagement as well as future plans and challenges.

## 6. Reinforcement of Engagement with Relevant Organizations

### ■ Assessment of “Stewardship Activities” for Other Assets (continued)

#### <Alternative assets>

- Alternative assets (infrastructure, real estate, private equity) are an asset class in which asset managers may have an impact directly on the ESG activities of investee companies. As a result, investors focusing on ESG when selecting investment managers are increasing mainly outside Japan. GPIF has placed an emphasis on stewardship responsibilities and the initiatives for ESG as critical points of evaluation since it started call for application of investment managers in April 2017.
- After selecting investment managers, GPIF requests them to submit “ESG Report” on a regular basis, based on which GPIF assesses in the comprehensive assessment their initiatives for stewardship responsibilities including the factors mentioned below. As the fund of funds type investment has been currently adopted in alternative investment, GPIF exchanges opinions concerning how the gatekeepers and managers of fund of funds implement stewardship activities.
  - ✓ Frameworks (organizations, management of conflicts of interest, etc.)
  - ✓ Endorsement status of the Principles for Responsible Investment (PRI)
  - ✓ Stewardship activities including ESG (policy, current actions, implementation of engagement, and response to ESG issues according to the characteristics of the assets)
- In March 2020, GPIF, as a real estate investor member, joined “GRESB\*,” an initiative providing a benchmark for ESG (Environment, Society and Governance) in real estate and infrastructure investments. In assessing external asset managers, GPIF also ascertains the status of their use of GRESB.
- While all investment managers are signatories to the PRI at the level of gatekeepers or fund of funds managers, not all managers at the level of investee funds are necessarily so.
- Both gatekeepers and fund of funds managers confirm their ESG activities when they select investee companies. After selecting, they conduct engagement with investee companies, including encouragement of the establishment of ESG policies.

#### \* Outline of GRESB

GRESB is an initiative established in 2009 mainly by European pension funds and provides ESG benchmarks for real estate and infrastructure investments. GRESB assesses the initiatives and achievements of ESG investments by real estate companies and real estate funds on an annual basis. In the annual assessment for 2020, more than 1,200 real estate companies and funds participated, and the amount of the subject real assets including infrastructure reached approximately 5.3 trillion dollars. More than 120 institutional investors use the assessment results to select investee companies, to conduct monitoring and engagement as investor members.



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## 6. Reinforcement of Engagement with Relevant Organizations

Approximately 80% of GPIF's assets are passively managed. Although indices function as critical factors directly linked to performance, GPIF and other participants of the investment chain have failed to allocate sufficient resources to select indices. Based on the awareness of such problem, GPIF not only implements engagement with index providers concerning their index governance systems but also promotes initiatives such as the conclusion of direct agreements to fund indices.

### ■ Engagement with index providers

- In passive investment, the important factor of success is the selection of benchmarks, rather than the degree of investment skill. However, asset owners including GPIF have not exerted more efforts for selecting benchmarks than understanding the importance of benchmarks. In the investment chain, it is asset owners who have the most significant impacts on the investment performance and evaluations by selecting benchmarks and improving quality. On the back of the awareness of the above-mentioned problem, GPIF partially introduced the “Index Posting System” in fiscal 2019 with the aim of effectively gathering information on various indices in order to enhance our overall fund management.
- GPIF has implemented due diligence and engagement, since we acknowledged the significance of assessment of index providers' organization structure as well as governance system, while working in selecting benchmarks such as ESG index. Specifically, GPIF strictly examines the relationships between stakeholders (shareholders and major customers) and rating agencies/index providers, their decision-making processes (whether they have independent committees, what they discussed), and whether they engage in any businesses that are likely to fall under conflicts of interest, such as consulting services for companies. GPIF believes index providers should be responsible for establishing solid governance systems and implementing decision-making from the investor-oriented point of view, according to their increasing presence year after year.
- Furthermore, GPIF, as an asset owner, has proactively participated and provided opinions in the consultation meetings held by index providers and ESG rating agencies when they consider changes in the index methodologies and ESG assessment methodologies. GPIF encourages external asset managers to similarly implement and express opinions.
- GPIF has been considering reviewing its style of contract with index providers while enhancing our commitment to indices. We believe that the alignment with not only index providers but also passive managers would be reinforced if the index license fee is directly borne by GPIF.

## 7. Initiatives for Promoting Dialogues between Asset Managers and Investee Companies

### ■ Survey of companies listed on the 1st Section of the Tokyo Stock Exchange

- GPIF conducted our first survey of JPX-Nikkei Index 400 companies in January 2016 with the aim of assessing the stewardship activities of external asset managers and understanding the actual situations of “constructive dialogue” (engagement). Since the third survey in 2018, we expanded the subjects to companies listed on the TSE’s first section, in order to gain direct feedback from a wide range of companies. In January 2021, we conducted the sixth survey.
- In the fifth survey in January 2020, 662 companies responded (accounting for 30.6%). The survey questions were as follows: (1) Evaluation concerning stewardship activities of GPIF’s asset managers; (2) Actual status concerning “constructive dialogue” (engagement); (3) Changes in the past one year; (4) IR and ESG activities of investee companies; and (5) GPIF’s initiatives.

The results of the survey are available here: [https://www.gpif.go.jp/en/investment/summary\\_report\\_of\\_the\\_5th\\_survey.pdf](https://www.gpif.go.jp/en/investment/summary_report_of_the_5th_survey.pdf)

### ■ Business and Asset Owners’ Forum

- The forum was established based on a proposal to establish a “platform for continuous and constructive dialogue between GPIF, an asset owner, and companies,” which we received from several companies including OMRON Corporation, Eisai Co., Ltd., and Nissan Motor Co., Ltd. The first forum was held in September 2016.
- Participated by 10 companies including three lead organizer companies and five asset owners.

[Participating companies]

<Lead organizers> Eisai Co., Ltd., OMRON Corporation, Nissan Motor Corporation

<Other companies> Asahi Group Holdings, Ltd., JFE Holdings, Inc., Shiseido Co., Ltd., TOTO Ltd., Nippon Telegraph and Telephone Corporation, Hitachi, Ltd., Mitsubishi Chemical Holdings Corporation

[Asset Owners]

Federation of National Public Service Personnel Mutual Aid Associations, Pension Fund Association for Local Government Officials, National Federation of Mutual Aid Association for Municipal Personnel, Promotion and Mutual Aid Corporation for Private Schools of Japan, Government Pension Investment Fund (GPIF).

- We decided to not hold the meeting in 2020 due to the COVID-19 pandemic, and are considering to resume it in 2021.
- An outline of the discussions is available here: <https://www.gpif.go.jp/en/investment/business-asset-owner-forum.html>. We provide feedback to our external asset managers and overseas asset owners.

# 7. Initiatives for Promoting Dialogues between Asset Managers and Investee Companies

## ■ “Excellent Integrated Reports” and “Most-improved Integrated Reports” selected by GPIF’s external asset managers entrusted with domestic equity investment

- GPIF considers integrated reports to be important tools of constructive dialogue for improving corporate value, and believes they are instrumental for interactive engagement between external asset managers and investee companies.
- Therefore, since 2016 GPIF has requested external asset managers for domestic equities to nominate companies that have created excellent integrated reports, with the aim of encouraging companies to start creating or enhancing integrated reports and encouraging investors to utilize them. For the fifth year, GPIF requested asset managers to nominate up to 10 “excellent integrated reports” and 10 “most-improved integrated reports” in December 2020. GPIF compiled the results and announced them in February 2021.
- We received positive feedback from companies, such as “the management began to pay more attention to the integrated reports,” “more active collaboration among relevant staff and departments has been found,” “Raised awareness of the integrated reports within the company,” “We observed PR effects through the company website and social media,” “It helps us to prepare our next integrated reports,” to name a few.
- Backed by the heightened awareness from the business side, we will continue this initiative as a tool to make dialogues between investee companies and asset managers more useful.

### ○ Excellent Integrated Reports

GPIF’s external asset managers for domestic equities named a total of 77 companies for their “excellent integrated reports.” The following companies were nominated by four or more respondents as publishers of “excellent integrated reports.”

✧ ITOCHU Corporation	Nominated by SIX asset managers
✧ Hitachi, Ltd.	Five asset managers
✧ Tokio Marine Holdings, Inc.	Five asset managers
✧ Kirin Holdings Company, Limited	Four asset managers
✧ Fuji Oil Holdings Inc.	Four asset managers
✧ Mitsui Chemicals, Inc.	Four asset managers
✧ Mitsubishi Chemical Holdings Corporation	Four asset managers
✧ Kao Corporation	Four asset managers
✧ OMRON Corporation	Four asset managers
✧ Ricoh Company, Ltd.	Four asset managers
✧ MARUI GROUP CO., LTD.	Four asset managers

### ○ Most-improved Integrated Reports

GPIF’s external asset managers for domestic equities named a total of 94 companies for their “most-improved integrated reports.” The following four companies were nominated by four or more respondents as publishers of the “most-improved integrated reports.”

✧ Nippon Paint Holdings Co., Ltd.	Nominated by SIX asset managers
✧ Daito Trust Construction Co., Ltd.	Four asset managers
✧ Ajinomoto Co., Inc.	Four asset managers
✧ Mizuho Financial Group, Inc.	Four asset managers

\* Please visit following website for the details including principal comments of the asset managers

[https://www.gpif.go.jp/en/investment/excellent.most-improved-Integrated-reports\\_2020.pdf](https://www.gpif.go.jp/en/investment/excellent.most-improved-Integrated-reports_2020.pdf)

## 8. Enhancing Collaboration with Stakeholders and Relevant Organizations

### ■ Enhancing collaboration with stakeholders and relevant organizations

#### <Collaboration with stakeholders>

Discussion Meeting: “Development of ESG investment and promotion of constructive dialogues between investee companies and investors” (November 2020 issue, Monthly magazine “Keidanren” published by Keidanren)

#### <Collaboration with Global Asset Owners>

##### Global Asset Owners’ Forum



Established as a forum for continuous exchange of opinions to further fulfill our stewardship responsibilities with the aim of utilizing mutual knowledge with foreign public pension funds, etc. The first conference was held in Tokyo in November 2016. GPIF, CalPERS and CalSTRS served as co-organizers.

- Members except for co-organizers include the following (as of March 2021):  
[USA] Florida State Board of Administration, The Regents of University of California, The World Bank; [Canada] bcIMC, OTPP; [Europe] NBIM, APG, PGGM, AP2, ERAFP, USS; [Singapore] GIC; [Australia] HESTA
- We decided to not hold the conference in 2020 due to the COVID-19 pandemic, and are considering to resume it in 2021.

#### <Participation in meetings organized by ministries>

##### [Ministry of Foreign Affairs] The Round Table for Promoting Implementation of the Sustainable Development Goals (SDGs)

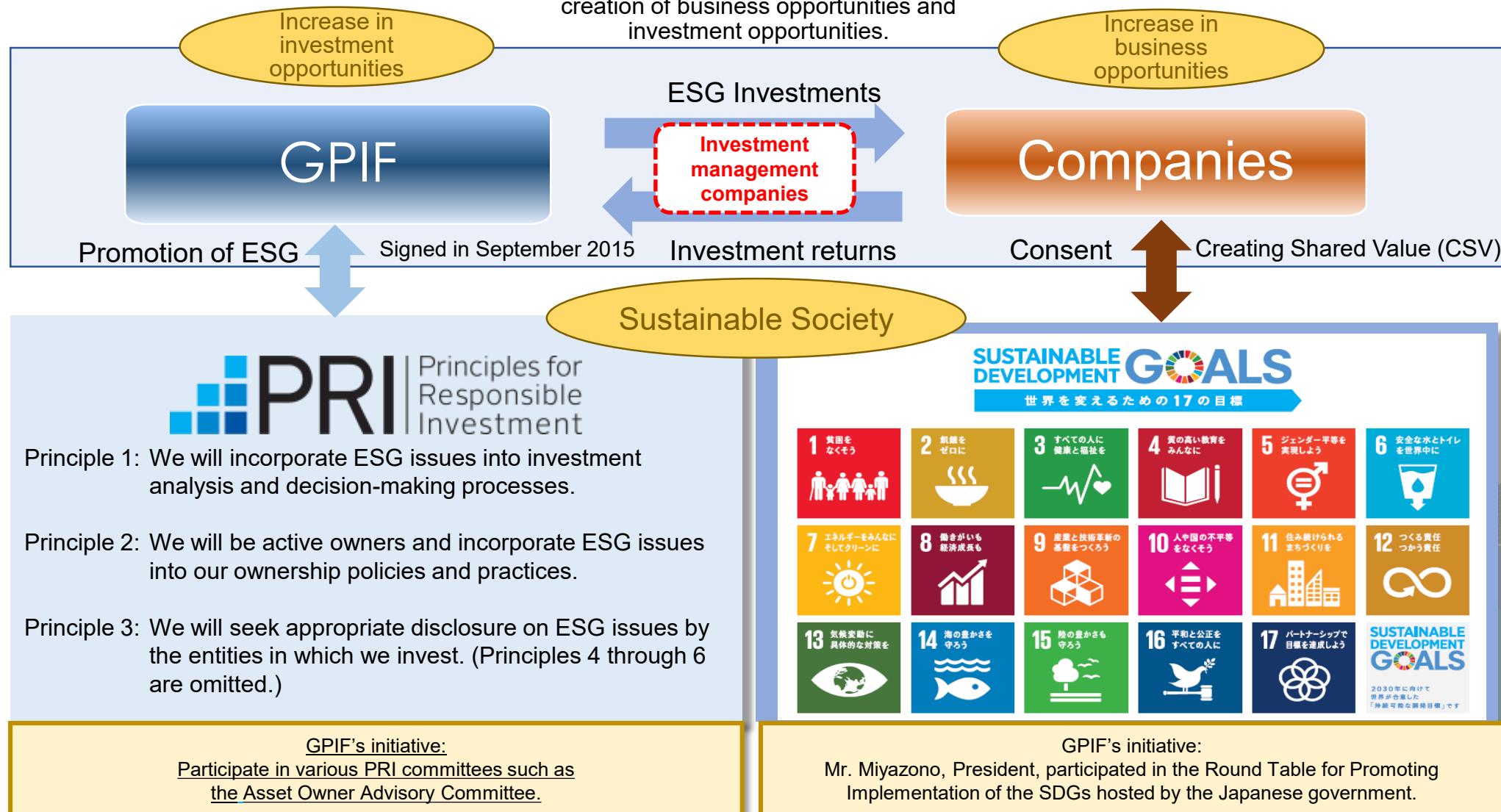
- Mr. Miyazono, President, participated as a member.

#### <Presentations at various seminars and international conferences (since last reported)>

June 2020: ASEAN Webinar Series - ASEAN Green Bond Investors -  
 August 2020: PRI Japan Network Webinar – COVID-19 Pandemic and ESG investment -  
 October 2020: “TCFD Summit 2020” hosted by the Ministry of Economy, Trade and Industry  
 November 2020: Green & Social Bond Conference  
 November 2020: GO ESG ASEAN Corporate Sustainability Virtual Summit 2020  
 December 2020: IR Conference 2020  
 February 2021: “ESG Investment Seminar for Pension Funds” hosted by the Ministry of the Environment

## (Reference) PRI and SDGs

Addressing social issues will lead to the creation of business opportunities and investment opportunities.



(Source: Created by GPIF based on information from the United Nations, etc.)





## **2. Stewardship Activities by GPIF's External Asset Managers, and Issues to be Addressed**

# 1. GPIF's View on Current Status of External Asset Managers

## <Stewardship Activities on Equity Investment>

- ❑ The overall quality has been improved as observed in both the activities and speed of actions of each asset manager. In addition to their company-wide commitments, in the case where an asset manager belongs to a financial group, the group as a whole has further committed itself to stewardship and ESG, which implies that such commitment has become a focal point of business.
- ❑ More and more external asset manager, both passive and active investment, have developed new policies on engagement and ESG, for which asset managers now implement organizational initiatives. Reviews on the policies are also implemented periodically, while taking actions corresponding to changes in the business environment.
- ❑ In stewardship reports, some asset managers established and disclosed plans for stewardship activities from medium- to long-term perspectives, including specific priority actions and other activities planned for several years ahead. Meanwhile, other external asset managers send letters to investee companies, as a tool to communicate their views and a chance to start dialogues with the management. It is critical to continue to monitor how they implement these plans in the engagement platforms.
- ❑ Despite these initiatives which are put into practice, there are still some asset managers which do not fully understand the GPIF's Stewardship Principles and the Proxy Voting Principles.
- ❑ In the past a few years, some passive and active managers have established and enhanced a designated department in charge of stewardship activities. Full-fledged efforts toward stewardship activities and more organized efforts throughout the year can be observed.
- ❑ As mentioned above, while active managers also implement engagement activities, their definitions of engagement and their actions vary depending on their organizational structures and investment styles. Some managers have a designated department in charge of their stewardship activities including engagement, while others do not. Particularly, as for the former case, cooperation between investments and stewardship activities are properly established. For the latter case, the focus should be placed on the commitment of the fund manager, and who takes leadership initiatives and how they are taken in order to make them more organized activities.
- ❑ All asset managers for domestic and foreign equities answered that they have taken measures for ESG issues. With respect to managers for domestic equities, some have taken further measures for "E (environment)" and "S (social)" issues, compared to the past. Some active managers for domestic equities have also taken further measures for "E (environment)" and "S (social)" issues, in addition to proactive engagement concerning "G (governance)" issues. Some other asset managers implement dialogues concerning ESG in their engagement with small- and medium-sized companies.

# 1. GPIF's View on Current Status of External Asset Managers

## <Stewardship Activities on Equity Investment (continued)>

- ❑ We believe that integrated reports and corporate governance reports are primary tools for interactive communication in implementing engagement and measures for ESG issues. While we are fully aware that asset managers have been moving forward on their use of those tools, we expect that analysts and fund managers, in addition to specialists in stewardship and ESG, will also further deploy these reports.
- ❑ Some managers including Japanese asset managers are promoting reform measures of not only investee companies but also the entire investment chain, by way of submission of public comments to overseas regulatory authorities and proactive engagement with stock exchanges and index providers.
- ❑ Japanese asset managers participated in joint initiatives such as CA100+ more proactively than foreign asset managers. As a whole, more and more asset managers joined global initiatives, using them as platforms to gain expertise and conduct joint engagements.
- ❑ It is observed that more and more asset managers, both passive and active investment, have participated in joint initiatives even though they had focused on engagement solely by themselves. GPIF will ascertain the newly joined asset managers how they will actually use the engagement going forward.
- ❑ Some asset managers not only participated in joint initiatives but also worked together from the establishment phase. The Net Zero Asset Managers initiative inaugurated in December 2020 comprises GPIF's five asset managers (one Japanese and four foreign asset managers) as founding members.

## <Exercise of Voting Rights>

- ❑ Depending on the cases, we positively assess asset managers when they exercised their voting rights in a way that it is not necessarily pursuant to voting policies but in line with their activities or actual situations as a result in engagement. As we consider voting along with engagement, we expect them to take measures that would contribute to enhancing long-term corporate value.
- ❑ In the announcement of the results of exercising individual voting rights by asset managers for domestic equities, there were obvious differences in timing, frequency and items of disclosure. We also found some asset managers' disclosure inappropriate for dialogues with companies towards next year's general meeting of shareholders. Many asset managers, however, made quarterly disclosures so that the announced results would be of use in the dialogue after the general meeting of shareholders.
- ❑ In the case where external asset managers for domestic equities oppose an investee company's proposal, all of them disclose the reasons for such decision. While responses to shareholder-proposals vary, the reasons for exercising voting rights for approval and/or opposition are disclosed. Some asset managers implement their own ideas by flagging investee companies such as business partners in the Group in which conflicts of interest are likely to take place, and provide more detailed explanations than usual. Other asset managers disclose the reference on their stewardship and exercise of voting rights. Some foreign asset managers of equity investments voluntarily disclose the result of exercise of voting rights.

# 1. GPIF's View on Current Status of External Asset Managers

## <Exercise of Voting Rights (continued)>

- ❑ When required their investees an increase in independent external directors, some asset managers for domestic equities allowed almost one-year grace period from the announcement of change in voting policy before taking effect, in order to let them know the change and implement engagement. Similarly, when some asset managers for foreign equities began including Diversity in their voting policy, each of them elaborated their own methods of engagement and exercising voting rights, for example by setting a grace period until the implementation.
- ❑ Both asset managers for domestic and foreign equities use proxy advisory firms. The majority of them use these firms in order to collect information, outsource administrative services concerning exercising of voting rights, and manage conflicts of interest in exercising voting rights for their own company, parent company and the Group companies. Only a small number of cases deployed the recommendations of advisory firms for the exercise of voting rights of the investees other than those required management of conflict of interest. GPIF uses the results of recommendations provided by ISS and Glass Lewis for analysis after the General Meeting of Shareholders.
- ❑ Regarding voting instruction errors and administrative errors made by custodians, we have requested asset managers and custodians to take appropriate measures, considering the importance of exercising voting rights. We requested asset managers to conduct explanations and engagement.

## <Initiatives under the COVID-19 Pandemic>

- ❑ Some asset managers informed solely or collaboratively their investee companies of their ways of thinking on stewardship activities and messages at an early stage. Also, other asset managers sent messages to clients concerning their business continuity, etc. Even under the current restricted environment, they strive to implement dialogues with investee companies using Web conference systems and video conference systems without suspending stewardship activities including engagement thanks to the intensive efforts by both companies and investors.
- ❑ As to the exercise of voting rights, some asset managers decided to handle the criteria in a flexible manner considering the status of individual companies while other asset managers changed the criteria across the board. GPIF believes that individual consideration should be given to each investee company according to the status of stewardship activities.
- ❑ GPIF will continue to ascertain the responses taken by asset managers going forward.

## 2. External Asset Managers' Governance Structures and Management of Conflicts of Interest with their Parent Companies, etc.

[Issues carried over from the previous year]

- ✓ While third-party committees are established in all Japanese asset managers for equity investment, there are some cases in which the status of holding committee meetings are hardly visible from outside, and where the targets subject to the management of conflicts of interest are extremely limited. The involvement in voting also varies largely depending on external asset managers. Given changes in some organizations, it may be necessary to verify the facts and conduct a review in order to make it more effective in the future.
  - ✓ Since there has been progress in the management of conflicts of interest and the development of voting guidelines, we believe that it is important to make revisions according to the actual situation and utilize them appropriately for practical purposes.
  - ✓ Responses to shareholder proposals to their own company or the group companies including their parent company.
- In recent years, at Japanese asset managers for equities, organizational segregation aimed at preventing conflicts of interest between the investment division and other divisions has been promoted, including by way of company split and integration of the investment division. In a case where the split division was organized as a separate company, various initiatives are quickly put into practice under the leadership of the top of the organization. Some asset managers appointed a leader of the organization from outside of the company. All Japanese asset managers for equities have already organized proper governance structures, including the election of outside directors and the establishment of a third-party committee comprised mainly of outside directors. The focus has now shifted to their effectiveness and improvement, if necessary.
  - The compensation schemes for executives and employees of external asset managers ultimately reflect their position within the Group, the relationship with a parent company, and their corporate culture, which suggests the importance of the compensation scheme and the incentive system.
  - While we found some asset managers having challenges in identifying investees to be managed in terms of conflicts of interest, in responding to misconduct when it occurred in the parent company and the group companies, and in responses including exercise of voting rights, a certain level of improvement has been observed in the responses to exercise of voting rights to parent company and the group companies.
  - Meanwhile, it was revealed that some foreign asset managers have no organizational segregation or no visible scheme to prevent conflicts of interest, indicating that the predominance of external foreign asset managers has no solid basis as expected.
  - It is confirmed that management of conflicts of interest in voting and voting guidelines are formalistically well organized.
  - However, given an increase in the number of shareholder proposals to both Japanese and foreign asset managers, their parent company and the group companies, we found there were some cases in which the current rules for decision processes of shareholder proposals were unable to function to the fullest. While some asset managers have already changed their decision processes, GPIF will demand that other asset managers make improvements as one of the future challenges.



### 3. Engagement by Passive Managers and Proper Exercise of Voting Rights

[Issues carried over from the previous year]

- ✓ Establishment of passive investment models focused on stewardship activities, and verification of the effectiveness of the appointed funds.
- ✓ New proposals for business models of passive investment focused on stewardship activities.
- ✓ Exercise of voting rights and its disclosure in accordance with the purpose of the GPIF's Proxy Voting Principles.
- ✓ Implementation of engagement in an effective manner of the passive investment in foreign equities.

- As for passive investment models focusing on stewardship activities, we adopted two funds in FY2018 (See pages 30 to 32 for details). We continue to look forward to positive proposals.
- All passive managers for equities have established a designated department in charge of engagement with investee companies from the perspective of enhancing long-term corporate value, and are developing and reinforcing necessary systems. In some cases, departments in charge of stewardship activities and ESG collaborate with sector analysts and fund managers in engagement.
- Some passive managers for domestic equities have been conducting dialogues in accordance with the engagement enhancement plan and policies. They addressed on a wide range of themes in engagement by utilizing external and/or proprietary data on ESG and creating ESG rating by their own criteria.
- In passive equity investment, almost all asset managers made proposals for ESG integration.
- Even in the case of using a proxy advisory firm for an engagement purpose, we require such asset managers to establish a system to make a final decision by itself considering the status of engagement and the content of the agenda.
- Meanwhile, when asset managers use proxy advisory firm for the purpose of managing conflicts of interests, we seek improvements in their usage if they need reconsideration of their utilization to achieve the intended goals.
- In the passive investment of foreign equities, some asset managers conduct engagement efficiently and effectively by using frameworks of collaborative engagement such as PRI and Climate Action 100+ in addition to their internal resources. Other managers also proactively participate in collaborative engagement by serving in the role of lead manager, etc.

### 3. Engagement by Passive Managers and Proper Exercise of Voting Rights

#### ➤ Overview and Points for Selection of Passive Investment Models Focused on Stewardship Activities

<Purpose of Selection>

- (1) Reinforcing management of diversified benchmark indices
- (2) Improving the overall market through stewardship activities. Diversifying and enhancing how to approach stewardship activities.

<Evaluation Method>

Reviewing their investment process and stewardship policies, as well as the entire business model including organizational systems and fee levels in order to implement such process and policies.

<Results of selection>

We received applications from new and existing asset managers. As a result of our examination, we selected two asset managers: Asset Management One and FIL Investments (Japan) in 2018.

#### Key Points for selection

##### <Setting of appropriate KPI>

- ✓ Medium- to long-term goals for engagement activities
- ✓ Annual plan for the achievement (Milestone)

##### <Engagement system and method>

- ✓ Organizations and persons in charge of stewardship activities
- ✓ Methods of engagement



#### Evaluation method after selection

For evaluation going forward, the status of achievement of the KPI as indicated on the left and the milestones for the following fiscal year will be evaluated.  
GPIF will renew the contract based on this result.

# 3. Engagement by Passive Managers and Proper Exercise of Voting Rights

## ➤ Characteristics of the two funds adopted as stewardship-focused passive investment models

### <Asset Management One>

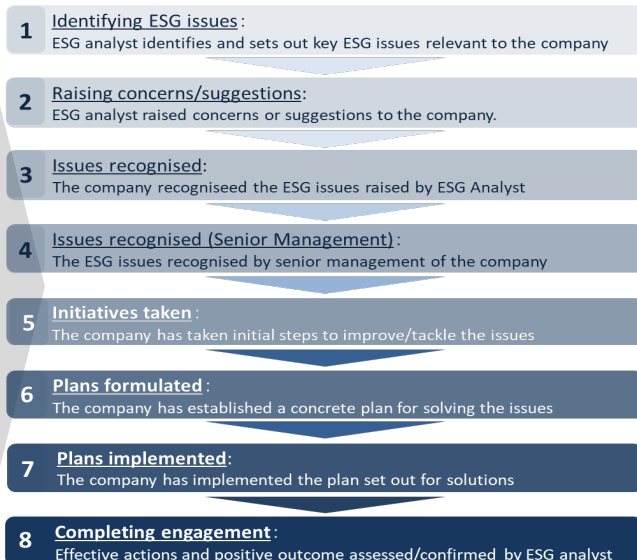
- Establish 19 ESG themes, and clarify the direction of engagement by showing the Challenges (locating problems), Goals (building models to be realized) and Action (company's activities). Implement engagement based on each theme at target companies. In 2020, digital transformation was added as an ESG issue, making a total of 20 ESG themes for the current implementation of engagement.
- Establish 8-level milestones, and periodically report GPIF the progress of engagement from the establishment of themes to their solutions.
- Steadily advancing the steps of specific actions from establishing and sharing themes to starting themes, formulating plans and implementing measures.
- Most of the engagement agenda of which the challenges were solved in 2019 were governance-related issues whereas just more than half of the engagement agenda of which the challenges were solved in 2020 were ESG issues such as CSR/ESG management and CSR procurement. Thus, the kinds of issues which were solved have been increasing.

#### 20 ESG Issues

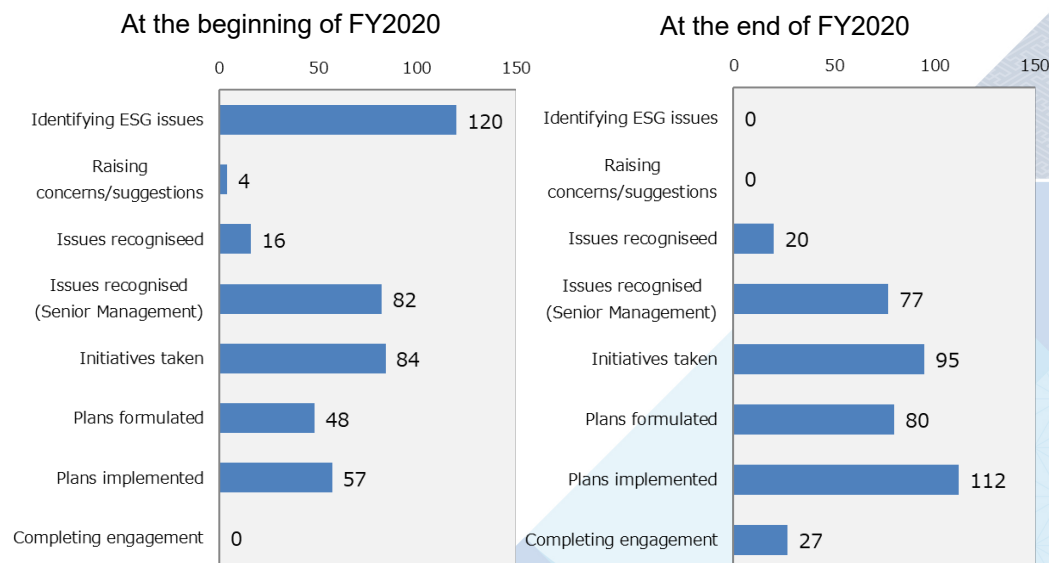
E	E1: Climate Change
	E2: Deforestation
	E3: Water Resource Management
	E4: Biodiversity
	E5: Waste & Pollution
	E6: Resource & Energy Management
S	S0: Diversity
	S1: Human Rights
	S2: Labor Practices/Health & Safety
	S3: Product Liability & Safety
G	G0: Board Governance & Accountability
	G1: Capital Efficiency
	G2: Takeover Defense Measures
	G3: Risk Management
ESG	ESG1: CSR/ ESG Management
	ESG2: Corporate Misconduct
	ESG3: Regional Revitalization
	ESG4: CSR Supply Chain Management
	ESG5: Digital Transformation (DX)

➡ Newly added factor

#### On Engagement Milestones (8 steps)



#### Engagement Progress



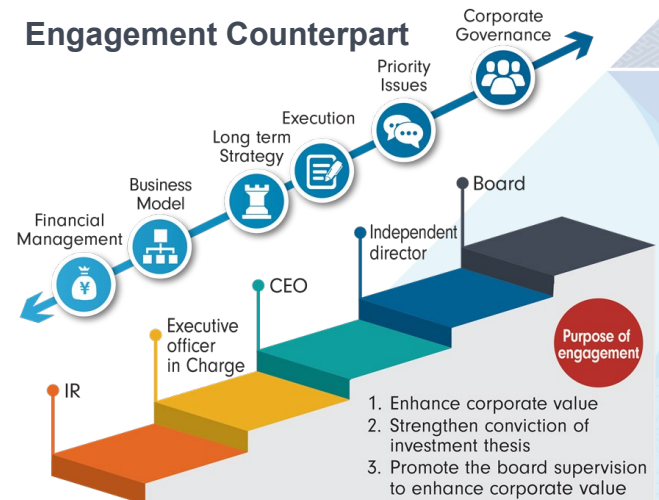
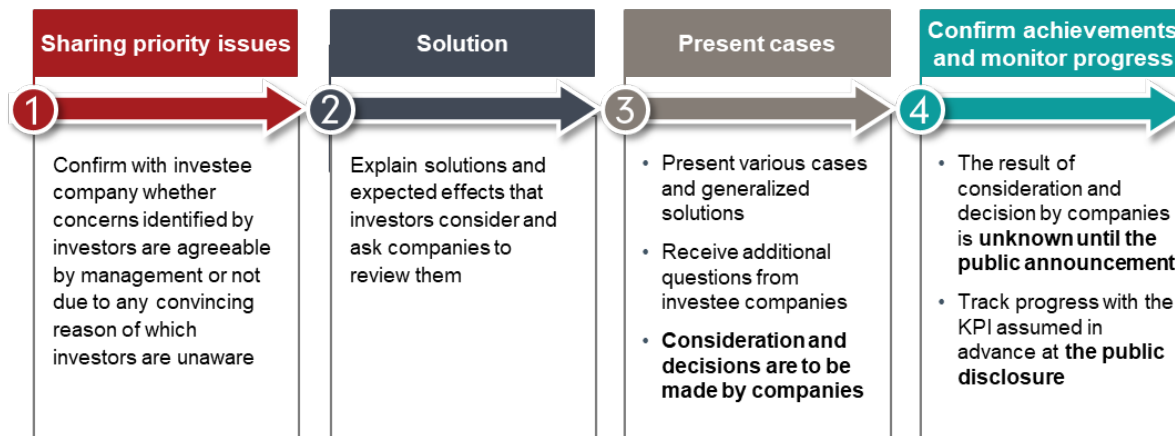
# 3. Engagement by Passive Managers and Proper Exercise of Voting Rights

## ➤ Characteristics of the two funds adopted as passive investment models focusing on stewardship activities

### <FIL Investments (Japan)>

- With the expertise of analysts of active investment, efficiently increase  $\beta$  by encouraging large-cap companies to reform their mindset. In order to improve corporate value, identify the agenda of engagement and engage with companies, by which profitability and growth capability will be improved caused by strong competitiveness.
- Specifically, narrow the subject companies for engagement by such conditions as (1) market capitalization of one trillion yen or more; and (2) corporate value is expected to improve by 50% or more, to implement engagement with large caps which are likely to have significant impacts on market capitalization.
- The status of progress is managed using three indicators of input, output and outcome, and is periodically reported to GPIF.
- Progress was observed in 90% (70% in the previous year) of the subject companies, which established new challenges, etc. At present, the progress is advancing from “Input” to “Output,” and in the past one year, in particular, many issues were observed to have made progress to “Output.”
- Most of the engagement agenda of which the challenges were solved in the past one year were governance-related issues while there were also some cases of progress in strategic business challenges. Virtuous cycles are also becoming visible as observed in some cases in which continuous engagement is mutually appealed to both sides.

#### Four Steps of Engagement



## 4. Critical ESG Issues

[Issues carried over from the previous year]

- ✓ Critical ESG issues are recognized by asset managers, and the status of implementation of engagement should be surveyed.
- ✓ Disclosure by investors on critical ESG issues.

- In the 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 for equities. (The table below represents the issues pointed out by all asset managers (the underlined issues represent those pointed out for the third year straight) whereas the table in the following page shows the issues pointed out by more than 50% of asset managers.)
- With regard to passive managers that hold investees' stocks as long as they are included in indices, we have found that all asset managers for domestic and foreign equities recognized that "Climate Change" was a material ESG issue, and that they considered long-term issues such as E (environmental) and S (social) including diversity and supply chain as extremely critical ESG issues. Some passive managers adopted a top-down approach while others conducted reconstruction of materiality to establish ESG issues.
- Among active managers whose primary holding periods are approximately several months to a few years, the material ESG issues for domestic equity managers were different from those for foreign equity managers. While all foreign equity managers considered "climate change" as critical, all domestic equity managers considered "board structure & self-evaluation" and "minority shareholder rights" as critical, which indicates that domestic equity managers continued to recognize G (governance) as the more critical ESG issue.
- A significant change observed from the previous year was "Supply chain," of which the percentage of both domestic and foreign passive equity managers rose, and it indicates that all passive asset managers consider the issue as critical. This demonstrates that supply chain is recognized as a critical issue on the back of the COVID-19 pandemic.

### <Critical ESG issues in passive/active investments as listed by all asset managers>

		Passive	Active
Domestic equities	2020	<u>Climate Change, Misconduct, Disclosure, Supply Chain, Diversity</u>	<u>Board Structure &amp; Self-evaluation, Minority Shareholder Rights</u>
	2019	<u>Climate Change, Misconduct, Disclosure</u>	<u>Board Structure &amp; Self-evaluation, Minority Shareholder Rights</u>
	2018	<u>Climate Change, Misconduct, Supply Chain</u>	<u>Board Structure &amp; Self-evaluation</u>
Foreign equities	2020	<u>Climate Change, Diversity, Disclosure, Supply Chain</u>	<u>Climate Change</u>
	2019	<u>Climate Change, Diversity, Others (social), Disclosure</u>	<u>Climate Change</u>
	2018	<u>Climate Change, Diversity, Others (social), Water Stress &amp; Water Security</u>	<u>Climate Change</u>



## 4. Critical ESG Issues

“Critical ESG Issues” as pointed out by more than 50% of passive/active asset managers(\*) are listed below. 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 percentage shown below represents the ratio of the number of managers which selected the relevant issue to the number of active/passive asset managers.

<Passive managers of domestic equities>

Climate Change	100%
Misconduct	100%
Disclosure	100%
Supply Chain	100%
Diversity	100%
Board Structure & Self-evaluation	83%
Minority Shareholder Rights	83%
Capital Efficiency	83%
Corporate Governance	83%
Environment Opportunities	67%
Health and safety	67%
Human Rights & Community	67%
Others (social)	67%
Water Stress & Water Security	67%
Biodiversity	67%
Anti-corruption	67%
Deforestation	67%

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

<Active managers of domestic equities>

Board Structure & Self-evaluation	100%
Minority Shareholder Rights	100%
Capital Efficiency	89%
Misconduct	89%
Disclosure	89%
Supply Chain	89%
Diversity	78%
Environment Opportunities	78%
Climate Change	67%
Corporate Governance	67%
Health and safety	67%
Human Rights & Community	67%
Pollution & Resources	67%
Product Liability	67%
Waste Management	67%
Labor Standards	67%
Others (social)	56%
Other (Governance)	56%
Other (Environment)	56%
Social Opportunities	56%

<Passive managers of foreign equities>

Climate Change	100%
Disclosure	100%
Supply Chain	100%
Diversity	100%
Corporate Governance	75%
Others (social)	75%
Health and safety	75%
Board Structure & Self-evaluation	75%
Other (Governance)	75%
Water Stress & Water Security	75%
Risk management	75%
Deforestation	75%

<Active managers of foreign equities>

Climate Change	100%
Others (social)	86%
Health and safety	86%
Human Rights & Community	86%
Corporate Governance	86%
Disclosure	86%
Diversity	71%
Social Opportunities	71%
Labor Standards	71%
Board Structure & Self-evaluation	71%
Minority Shareholder Rights	71%
Supply Chain	71%
Environment Opportunities	71%
Product Liability	57%
Other (Governance)	57%
Capital Efficiency	57%
Anti-corruption	57%
Others (ESG)	57%
Water Stress & Water Security	57%
Pollution & Resources	57%

Issues pointed out by all managers are shown in red.  
Percentage indicates the ratio of managers that selected the issue.

## 4. Critical ESG Issues

- GPIF also asked external asset managers entrusted with fixed-income investment about critical ESG issues considered from the viewpoint of fixed-income investors. The results are listed below.

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

(\*) The percentage shown below represents the ratio of the number of managers which selected the relevant issue to the number of active/passive asset managers.

Domestic bonds	
<b>Disclosure</b>	<b>100%</b>
Climate Change	89%
Corporate Governance	67%
Board Structure & Self-evaluation	56%
Health and safety	56%

Foreign bonds	
Climate Change	95%
Health and safety	67%
Board Structure & Self-evaluation	57%
Human Rights & Community	57%
Corporate Governance	52%
Supply Chain	52%
Diversity	52%
Pollution & Resources	52%
Disclosure	52%
Product Liability	52%
Waste Management	52%
Labor Standards	52%

	... 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 managers that selected the issue.



### **3. Expectations & Challenges for External Asset Managers and GPIF's Action Plans Going Forward**

### Expectations and Challenges for External Asset Managers

- ✓ **Integrate GPIF's Stewardship Principles and Proxy Voting Principles in their operations at all levels throughout their organizations**
- ✓ **Enhance the governance. Formulate and review effective measures to prevent conflicts of interest**
- ✓ **Collaborate between investment and stewardship activities**
- ✓ **Propose and establish models for passive investment focusing on stewardship activities**
- ✓ **Practice ESG integration across different investment styles**
- ✓ **Reflect ESG issues on the voting principles**
- ✓ **Initiate stewardship activities in fixed income investments**
- ✓ **Implement stewardship activities in line with messages to investee companies (consistency of speech and action)**
- ✓ **Improve the quality of disclosure**
  - Disclosure of voting principles and the results of exercise of voting rights
  - Disclosure in line with TCFD Recommendation
  - Disclosure of critical ESG issues (materiality)

### GPIF's Action Plans Going Forward

- ✓ **"Enhance engagement" with external asset managers focusing on two-way communication**
  - Assessing the compliance status of GPIF's Stewardship Principles and Proxy Voting Principles
  - Checking the governance systems of external asset managers
  - Conducting dialogues with each position from top management to persons in charge, according to themes
  - Recognizing challenges relating to engagement subject companies. Sharing their evaluation among the investment team and stewardship team
- ✓ **Increase the adoption of passive investment models focusing on stewardship activities**
- ✓ **Take further consideration on the evaluation method of ESG integration**
- ✓ **Examine evaluation criteria and methods of stewardship responsibilities in fixed income investment**
- ✓ **Conduct joint researches with external organizations on the measurement of achievement and effects of engagement including ESG**



# **Status of Exercise of Shareholders' Voting Rights** **(from April 2020 to June 2020)**



# Status of Exercise of Shareholder Voting Rights in FY2020 (April to June 2020)

## 1. Domestic Equities

### (1) Exercise of voting rights by external asset managers

All external asset managers (31 funds) exercised their voting rights.

### (2) Exercise of voting rights by type of proposal

(Total number of proposals)

Proposals		Proposals pertaining to company organization					Proposals pertaining to Director remuneration, etc.				Proposals pertaining to capital policy (excluding items pertaining to changes to the articles of incorporation)			Proposals pertaining to changes to the articles of incorporation	Poison Pill (Rights Plan)		Other proposals	Total
		Appointment of Directors	Of which, appointment of Outside Directors	Appointment of Statutory Auditors	Of which, appointment of Outside Statutory Auditors	Appointment of Accounting Auditors	Director remuneration	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, transfer of business, company split, etc.		Warning type	Trust type		
Total number of voting rights exercised		143,100	49,517	20,116	13,394	390	4,448	1,314	919	557	11,740	43	256	4,873	656	0	179	188,591
Management proposals	Total	142,240	49,127	20,089	13,376	390	4,431	1,314	919	557	11,686	0	256	3,299	656	0	138	185,975
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	124,208	42,828	17,463	10,846	389	4,192	1,125	183	463	11,515	0	256	3,226	27	0	107	163,154
		(87.3%)	(87.2%)	(86.9%)	(81.1%)	(99.7%)	(94.6%)	(85.6%)	(19.9%)	(83.1%)	(98.5%)	(0.0%)	(100.0%)	(97.8%)	(4.1%)	(0.0%)	(77.5%)	(87.7%)
	Opposed	18,032	6,299	2,626	2,530	1	239	189	736	94	171	0	0	73	629	0	31	22,821
		(12.7%)	(12.8%)	(13.1%)	(18.9%)	(0.3%)	(5.4%)	(14.4%)	(80.1%)	(16.9%)	(1.5%)	(0.0%)	(0.0%)	(2.2%)	(95.9%)	(0.0%)	(22.5%)	(12.3%)
Shareholder proposals	Total	860	390	27	18	0	17	0	0	0	54	43	0	1,574	0	0	41	2,616
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	139	66	0	0	0	0	0	0	0	7	10	0	143	0	0	20	319
		(16.2%)	(16.9%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(13.0%)	(23.3%)	(0.0%)	(9.1%)	(0.0%)	(0.0%)	(48.8%)	(12.2%)
	Opposed	721	324	27	18	0	17	0	0	0	47	33	0	1,431	0	0	21	2,297
		(83.8%)	(83.1%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(87.0%)	(76.7%)	(0.0%)	(90.9%)	(0.0%)	(0.0%)	(51.2%)	(87.8%)

#### Notes:

\* Figures in parentheses represent percentages for each proposal. The total percentage may not add up to 100 due to rounding.

\* There were no cases of non-exercise. The 37 cases of abstention are included in "Opposed."

\* Resolutions of J-REIT general meetings of investors are included above.

# Status of Exercise of Shareholder Voting Rights in FY2020 (April to June 2020)

## 2. Foreign Equities

### (1) Exercise of voting rights by external asset managers

All external asset managers (17 funds) exercised their voting rights.

(In some cases, voting rights were not exercised in the subject countries for institutional reasons, etc.)

### (2) Exercise of voting rights by type of proposal

(Total number of proposals)

Proposals		Proposals pertaining to company organization			Proposals pertaining to Director remuneration, etc. Proposals pert				Proposals pertaining to capital policy (excluding items pertaining to changes to the articles of incorporation)			Proposals pertaining to changes to the articles of incorporation	Warning-type poison pill	Other proposals		Total
		Appointment of Directors	Appointment of Statutory Auditors	Appointment of Accounting Auditors	Director remuneration	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, transfer of business, company split, etc.			Approval of financial statements and statutory reports	Other proposals	
Total number of voting rights exercised		62,245	2,730	7,584	13,749	147	84	2,797	5,175	3,180	6,170	6,168	155	7,696	22,562	140,442
Management proposals	Total	61,420	2,429	7,539	13,526	146	83	2,768	5,168	3,180	6,147	5,702	153	7,696	19,901	135,858
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	53,144	2,097	7,078	11,577	126	41	2,076	5,083	3,043	4,643	5,057	131	7,602	16,426	118,124
		(86.5%)	(86.3%)	(93.9%)	(85.6%)	(86.3%)	(49.4%)	(75.0%)	(98.4%)	(95.7%)	(75.5%)	(88.7%)	(85.6%)	(98.8%)	(82.5%)	(86.9%)
	Opposed	8,276	332	461	1,949	20	42	692	85	137	1,504	645	22	94	3,475	17,734
		(13.5%)	(13.7%)	(6.1%)	(14.4%)	(13.7%)	(50.6%)	(25.0%)	(1.6%)	(4.3%)	(24.5%)	(11.3%)	(14.4%)	(1.2%)	(17.5%)	(13.1%)
Shareholder proposals	Total	825	301	45	223	1	1	29	7	0	23	466	2	0	2,661	4,584
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	530	219	37	72	1	0	10	7	0	16	91	2	0	1,023	2,008
		(64.2%)	(72.8%)	(82.2%)	(32.3%)	(100.0%)	(0.0%)	(34.5%)	(100.0%)	(0.0%)	(69.6%)	(19.5%)	(100.0%)	(0.0%)	(38.4%)	(43.8%)
	Opposed	295	82	8	151	0	1	19	0	0	7	375	0	0	1,638	2,576
		(35.8%)	(27.2%)	(17.8%)	(67.7%)	(0.0%)	(100.0%)	(65.5%)	(0.0%)	(0.0%)	(30.4%)	(80.5%)	(0.0%)	(0.0%)	(61.6%)	(56.2%)

Notes:

\* Figures in parentheses represent percentages for each proposal. The total percentage may not add up to 100 due to rounding

\* "Opposed" figures include 981 abstentions.

# Status of Exercise of Shareholder Voting Rights in FY2020 (April to June 2020)

Comparison of the number of exercises of voting rights by fiscal year (Period from April to June)

\* Comparison of the number of opposition to management proposals, etc., and the number of approvals of shareholder proposals by fiscal year

		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Domestic equity	Opposition to the management proposals or abstention from voting	132	1,872	2,594	5,377	12,917	16,840	16,907	14,009	15,472	17,674	22,074	18,044	16,191	12,911	14,266	13,408	12,491	15,061	22,250	22,821
		0.5%	2.2%	2.8%	3.6%	8.1%	12.1%	10.3%	10.2%	8.7%	11.6%	13.3%	11.6%	11.5%	9.5%	8.4%	7.9%	8.5%	10.3%	11.1%	12.3%
	Approval of shareholder proposals	15	38	48	89	57	41	76	37	42	47	34	58	34	56	55	65	167	129	215	319
		2.2%	3.7%	5.8%	8.0%	6.9%	6.3%	7.0%	3.5%	3.1%	2.6%	1.9%	2.7%	2.3%	2.9%	2.8%	4.7%	7.8%	8.8%	12.0%	12.2%
Foreign equity	Opposition to the management proposals or abstention from voting	412	2,336	1,513	2,453	3,571	4,299	5,770	6,427	8,849	7,293	6,087	5,422	7,161	7,269	10,778	11,162	13,076	17,061	17,510	17,734
		5.8%	9.9%	4.6%	5.0%	5.7%	5.4%	6.2%	6.5%	8.1%	6.9%	5.3%	4.9%	6.0%	6.7%	7.5%	7.7%	8.7%	10.3%	12.4%	13.1%
	Approval of shareholder proposals	123	381	999	907	1,074	1,724	1,669	1,745	2,821	2,085	1,486	1,655	1,503	1,483	2,650	2,630	3,295	2,849	2,504	2,008
		25.8%	15.2%	28.0%	14.4%	24.7%	31.7%	29.5%	29.7%	44.2%	38.9%	32.9%	35.2%	32.0%	40.3%	47.4%	43.0%	50.5%	53.3%	52.7%	43.8%

## Stewardship Principles

Established on June 1, 2017  
Revised on February 6, 2020

Government Pension Investment Fund (GPIF) requires its external asset managers (“asset managers”) to comply with the following principles. If an asset manager decides not to comply with any of the principles due to the characteristics of the assets in which it invests and/or its investment style, it is required to explain the rationale for its non-compliance to GPIF.  
In order to fulfill its own stewardship responsibilities, GPIF continuously monitors the stewardship activities of its asset managers, including their exercise of any voting rights, and proactively conducts dialogue (engagement) with them.

### **(1) Corporate Governance Structure of Asset Managers**

- Asset managers should adopt Japan’s Stewardship Code.
- Asset managers should have a strong corporate governance structure. In particular, asset managers should develop a supervisory system through such measures as appointing outside directors with a high degree of independence in order to enhance their independence and transparency.
- Asset managers should commit sufficient internal resources to fulfill their stewardship responsibilities effectively.
- Asset managers should explain how their remuneration and incentive systems for their executives and employees are aligned with the interests of GPIF.

### **(2) Management of Conflicts of Interest by Asset Managers**

- Asset managers should appropriately manage conflicts of interest (if the asset manager belongs to a corporate group, not only within asset manager but also within the group) in order to put the beneficiaries’ interests first. Asset managers should classify types of conflicts of interest into those related to financial/capital relationships and those related to business relationships. Asset managers should also develop and publicly disclose a policy for the management of conflicts of interest.
- Asset managers should manage conflicts of interest through measures such as establishing a third-party committee with a high degree of independence and disclosing information on such. When selecting committee members, asset managers should consider the candidates’ independence, experience and skill sets, among other factors.
- When exercising voting rights for companies with which they have a potential conflict of interest, such as their own company, their parent company or other group companies, asset managers should develop and disclose a process that removes arbitrariness and is in line with best practice in corporate governance and conflict of interest management, such as letting their third-party committee make voting decisions or examine the validity of their own decisions, or following the recommendations of a proxy voting advisor.

### **(3) Policy for Stewardship Activities, including Engagement**

- Asset managers should develop and publicly disclose a stewardship policy, which should include their approach to engagement.
- Asset managers should ensure that their stewardship policy and activities contribute to long-term risk-adjusted returns rather than short-term outcomes. In addition, to support more effective stewardship activities, asset managers should consider formulating engagement objectives and plans.

- Asset managers should integrate stewardship and investment.
- Asset managers should proactively engage with index providers to promote the interests of beneficiaries. Such engagements should include participating in index providers’ consultations regarding the constituent stocks of indices, as these have a material impact on GPIF’s investment performance.
- Asset managers should engage with various stakeholders including regulators, stock exchanges, investee companies and index vendors, so as to improve the sustainability of the markets in which they and GPIF invest.
- Asset managers should take non-financial information into consideration when engaging with investee companies. Non-financial information should include (but not be limited to) the information contained within companies’ corporate governance reports and integrated reporting.
- If a company should decide not to comply with any of the principles established by relevant corporate governance codes of individual countries or equivalents but to explain their reasons for non-compliance, asset managers should engage with the company to understand their thought process and address the quality and detail of these explanations as necessary.
- GPIF expects asset managers of passive equity investment mandates to develop and effectively implement a corporate engagement strategy to promote the sustainable growth of the market.
- When using an engagement agency or third-party engagement service provider, asset managers should conduct proper due diligence prior to their selection and undertake continuous monitoring after selection.

### **(4) ESG Integration into the Investment Process**

- GPIF believes that it is vital to integrate environmental, social and governance (ESG) factors into the investment process to increase corporate value and promote the sustainable growth of investee companies and the capital market as a whole, thereby contributing to long-term investment returns. Asset managers should consider the materiality of ESG issues in relevant sectors and the circumstances of individual investees and deal with those factors accordingly.
- Asset managers should determine which ESG issues they deem to be critical, specify goals that they would like to achieve as a long-term investor, and proactively engage with investee companies on these issues.
- Asset managers should become signatories of the Principles for Responsible Investment (PRI), and participate in other industry ESG initiatives.

### **(5) Exercise of Voting Rights**

- Asset managers should exercise the voting rights relating to GPIF’s investments exclusively in the best interests of GPIF and its beneficiaries.
- In order to promote long-term corporate value at investee companies, asset managers should exercise voting rights in accordance with the GPIF Proxy Voting Principles as attached.
- When using a proxy voting advisor, asset managers should conduct proper due diligence prior to their selection. After selection, asset managers should continuously monitor service quality and engage with the proxy voting advisor as necessary (excluding cases where the objective is managing conflicts of interest in relation voting on their own shares (see section 2 above)).

## Proxy Voting Principles

Established on June 1, 2017

Revised on February 6, 2020

○ In accordance with the GPIF's Stewardship Principles, GPIF's external asset managers ("asset managers") should exercise any and all voting rights in a manner consistent with their ongoing corporate engagements and other stewardship activities.

○ Asset managers should develop a proxy voting policy and guidelines that will contribute to the maximization of shareholders' long-term interests. Asset managers should publicly disclose their proxy voting policy and guidelines in order to make the basis for their voting decisions clear.

○ Asset managers should have sufficient communication with investee companies to inform their voting decisions and to ensure that all voting rights are exercised with thoughtful consideration.

○ Asset managers should give careful consideration to environmental, social and governance (ESG) issues when exercising voting rights, with the objective of enhancing investee companies' corporate value over the medium- to long-term.

○ Asset managers should apply careful due diligence when exercising voting rights on proposals that could undermine minority shareholders' interests as well as those that could protect minority shareholders' interests.

○ Asset managers should generally exercise voting rights in support of the Corporate Governance Codes established by the individual countries in which their investee companies are domiciled. When there is no such code or equivalent, asset managers should appropriately exercise voting rights in support of the internationally recognised standards that they require investee companies to follow.

○ If asset managers use a proxy voting advisory service to exercise voting rights, they should not mechanically follow the advisor's recommendations (excluding cases in which the objective is to manage their own conflicts of interest). In all cases, it will remain the sole responsibility of asset managers to exercise voting rights in the best interests of GPIF and its beneficiaries.

○ Asset managers should publicly disclose their entire voting record on an individual company and individual agenda item basis.

○ Asset managers should disclose the rationale for their voting decisions based on necessity and/or importance as appropriate.

○ Asset managers should explain the rationale for their voting decision in detail to investee companies upon request.

○ Asset managers should periodically review their voting records and conduct self-assessments.

○ Based on their self-assessments, asset managers should update their policies for the following year as necessary.





GPIF Homepage

<https://www.gpif.go.jp/>

GPIF  
Homepage



GPIF  
YouTube channel



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GPIF YouTube channel

<https://www.youtube.com/channel/UCWpjyPh1kw0VyflPpcVMIXw>

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