



# Stewardship Activities Report 2022-2023

March 2023

GPIF  
Homepage



GPIF  
YouTube channel



GPIF  
Twitter



年金積立金管理運用独立行政法人  
Government Pension Investment Fund





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.

As indicated in the [“Policy to Fulfill Stewardship Responsibilities,”](#) this report covers the following: Chapter 1. Stewardship & ESG Activities of GPIF; and Chapter 2. “Initiatives and Challenges of External Asset Managers.”

Chapter 3 summarizes “Expectations and Challenges for External Asset Managers and GPIF’s Action Plans Going Forward” based on the foregoing two chapters.

In addition, the status of shareholders’ voting rights exercised during the period from April 2022 to June 2022 is shown on pages 45 to 47.



## Topics for FY2022

### <Assessment of stewardship activities for fixed income investment> [See page 16 for details.](#)

In the fiscal year under review, GPIF began to assess the stewardship activities of external asset managers entrusted with fixed income investment from the perspective of “how they contribute to the promotion of sustainable growth and the reduction of credit risks of investee companies.”

The assessment was implemented to confirm if organizations and human resources are well established, for conducting stewardship activities such as stewardship policy, as well as and principles and systems for managing conflicts of interest. The assessment of stewardship activities was conducted as part of the “Organization and human resources.”

Evaluation of investment capability
Investment policy
Investment process
Organization and human resources
Provision of information, etc.

As part of “Organization and human resources,” the “Stewardship Activities for fixed income” was assessed.

### <Measuring the effects of stewardship activities and ESG investment> [See page 44 for details.](#)

For the purpose of measuring the effects of stewardship activities and ESG investments, GPIF plans collaborative studies with an external organization in FY2023 and FY2024. In March 2023, GPIF announced an open call for the quantitative analysis consulting business. The (planned) themes for this project are as follows.

- 1 . Measurement of the effects of stewardship activities
  - Verification of the effects of engagement (Research into the causation between engagement and ESG ratings/ improvement of corporate value)
  - Verification of the exercise of voting rights by external asset managers (Changes in how different when exercising voting rights for companies with which they have a potential conflict of interest and other investee companies)
- 2 . Measurement of the effects of ESG investment
  - Verification of the effects of passive investment of equities based on ESG indices (Analysis of the impact of ESG investment on corporate behavior)
  - Study on ESG factors that contribute to the improvement of corporate value and investment returns (Research into the causation between the ESG factors and the improvement of corporate value/ investment returns)

## <Posting YouTube videos>

GPIF began to post YouTube videos about stewardship and ESG. YouTube video series titled “Understanding GPIF in 10 minutes” introduce GPIF’s stewardship activities and ESG investment for those engaging in ESG activities, IR, and engagement activities with investors at companies.

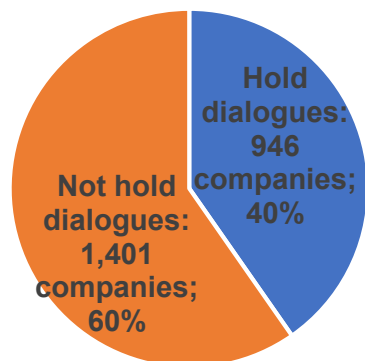
Videos “Is it safe to manage our pension fund? Let’s Ask Mr. Ueda, CIO of GPIF” and “Frequently asked questions about GPIF: Let’s Ask Mr. Ueda, CIO of GPIF,” are also now available on YouTube.

Note: All videos are in Japanese only.

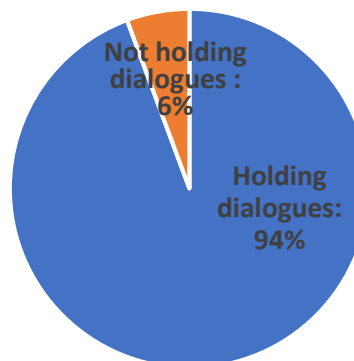


## Status of Engagement by GPIF's External Asset Managers (January to December 2022) (Japanese equities)

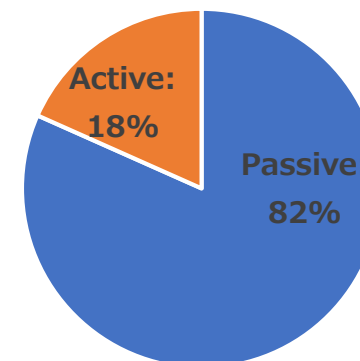
Number of companies that held dialogues



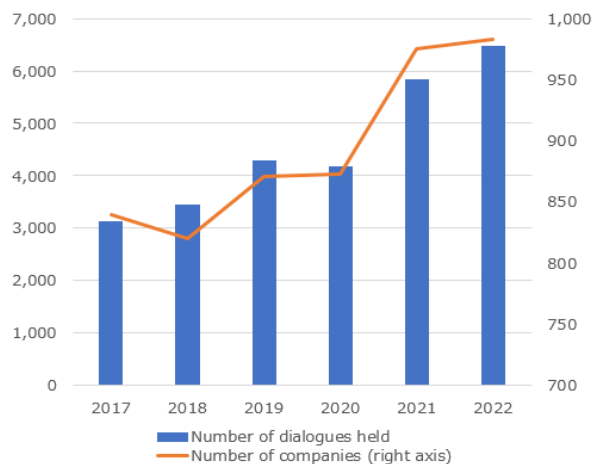
Ratio of companies that held dialogues (on a market capitalization basis)



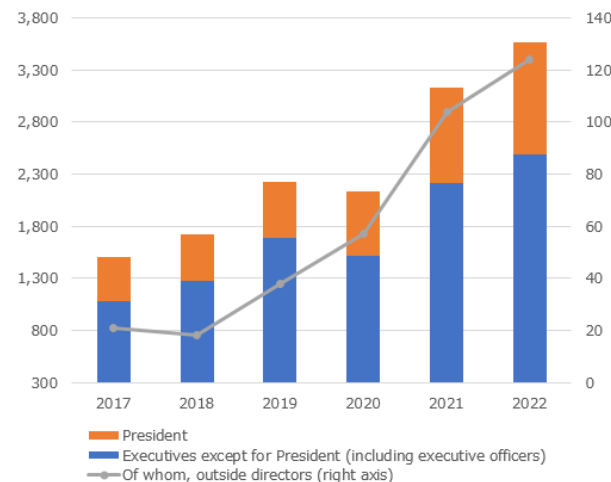
Number of dialogues held (passive and active ratios)



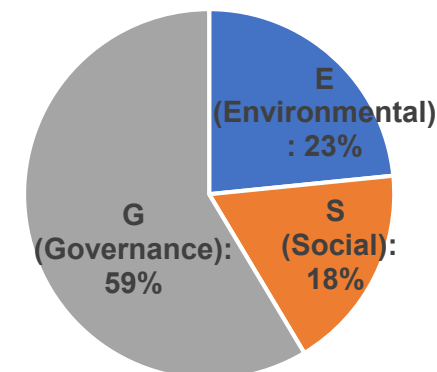
Trend of number of dialogues and companies



Trend of number of dialogues with executive levels



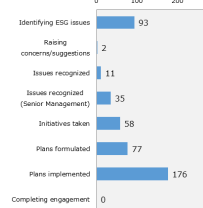
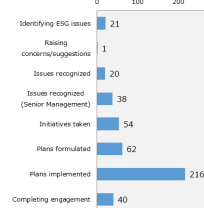
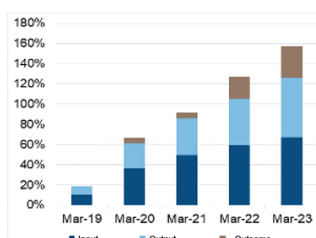
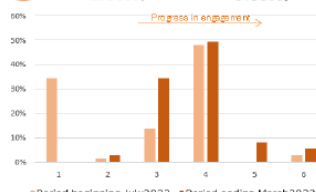
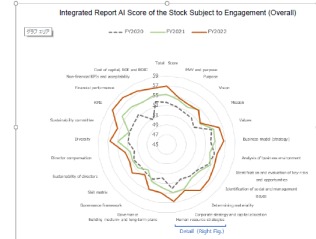
Number of dialogues held (by theme)



Note: The ratio of the number of companies with which dialogues were held was calculated with the number of domestic companies whose shares are held as of March 31, 2022, as a denominator. Passive and active ratios are counted by the mandates entrusted more by GPIF.

[See pages 27 to 29 for the status of engagement.](#)

## Characteristics of Four Engagement-enhanced Passive Managers and their Status of Progress

<a href="#">See pages 31 to 38 for more details of each manager.</a>	Characteristics of engagement	Status of progress (examples)																																
<b>Asset Management One</b>	<p>Started in 2018.</p> <p>Engagement on 18 ESG issues is conducted by ESG analysts with investment experience of over 20 years and the person in charge of voting rights, in collaboration with fund managers and analysts of the asset management division. The engagement activity makes tangible investee companies' challenges, contributing to the improvement of their corporate value.</p>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>At the beginning of FY 2022+</p>  <table border="1" style="font-size: small; margin: 0 auto;"> <tr><td>Identifying ESG issues</td><td>93</td></tr> <tr><td>Raising concerns/suggestions</td><td>2</td></tr> <tr><td>Issues recognized</td><td>11</td></tr> <tr><td>Issues recognized (Senior Management)</td><td>35</td></tr> <tr><td>Initiatives taken</td><td>58</td></tr> <tr><td>Plans formulated</td><td>77</td></tr> <tr><td>Plans implemented</td><td>176</td></tr> <tr><td>Completing engagement</td><td>0</td></tr> </table> </div> <div style="text-align: center;"> <p>At the end of Q3, FY2022</p>  <table border="1" style="font-size: small; margin: 0 auto;"> <tr><td>Identifying ESG issues</td><td>21</td></tr> <tr><td>Raising concerns/suggestions</td><td>1</td></tr> <tr><td>Issues recognized</td><td>20</td></tr> <tr><td>Issues recognized (Senior Management)</td><td>38</td></tr> <tr><td>Initiatives taken</td><td>54</td></tr> <tr><td>Plans formulated</td><td>62</td></tr> <tr><td>Plans implemented</td><td>216</td></tr> <tr><td>Completing engagement</td><td>40</td></tr> </table> </div> </div>	Identifying ESG issues	93	Raising concerns/suggestions	2	Issues recognized	11	Issues recognized (Senior Management)	35	Initiatives taken	58	Plans formulated	77	Plans implemented	176	Completing engagement	0	Identifying ESG issues	21	Raising concerns/suggestions	1	Issues recognized	20	Issues recognized (Senior Management)	38	Initiatives taken	54	Plans formulated	62	Plans implemented	216	Completing engagement	40
Identifying ESG issues	93																																	
Raising concerns/suggestions	2																																	
Issues recognized	11																																	
Issues recognized (Senior Management)	35																																	
Initiatives taken	58																																	
Plans formulated	77																																	
Plans implemented	176																																	
Completing engagement	0																																	
Identifying ESG issues	21																																	
Raising concerns/suggestions	1																																	
Issues recognized	20																																	
Issues recognized (Senior Management)	38																																	
Initiatives taken	54																																	
Plans formulated	62																																	
Plans implemented	216																																	
Completing engagement	40																																	
<b>FIL Investments</b>	<p>Started in 2018.</p> <p>Aim for efficient enhancement of <math>\beta</math> by urging companies with a strong impact on indices to make reforms based on knowledge of analysts of active investments. The agenda of engagement are identified from the perspectives of creating corporate value, and the improvement of profitability and growth potential is pursued by enhancing companies' competitiveness.</p>	 <table border="1" style="font-size: small; margin: 0 auto;"> <caption>Percentage of Input, Output, and Outcome</caption> <thead> <tr><th>Period</th><th>Input (%)</th><th>Output (%)</th><th>Outcome (%)</th></tr> </thead> <tbody> <tr><td>Mar-19</td><td>~10</td><td>~10</td><td>~0</td></tr> <tr><td>Mar-20</td><td>~30</td><td>~30</td><td>~10</td></tr> <tr><td>Mar-21</td><td>~40</td><td>~40</td><td>~20</td></tr> <tr><td>Mar-22</td><td>~50</td><td>~50</td><td>~30</td></tr> <tr><td>Mar-23</td><td>~60</td><td>~50</td><td>~40</td></tr> </tbody> </table>	Period	Input (%)	Output (%)	Outcome (%)	Mar-19	~10	~10	~0	Mar-20	~30	~30	~10	Mar-21	~40	~40	~20	Mar-22	~50	~50	~30	Mar-23	~60	~50	~40								
Period	Input (%)	Output (%)	Outcome (%)																															
Mar-19	~10	~10	~0																															
Mar-20	~30	~30	~10																															
Mar-21	~40	~40	~20																															
Mar-22	~50	~50	~30																															
Mar-23	~60	~50	~40																															
<b>Sumitomo Mitsui Trust Asset Management</b>	<p>Started in 2021.</p> <p>Adopt multi-engagement model in which the upper management (chairperson and president) actively participate in engagement. The effects of engagement are maximized for the increase of corporate value by combining the top-down approach based on the ESG materiality and the bottom-up approach from the business operation levels.</p>	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> <p><b>S</b></p> <p>Period beginning July2022 2.5step</p> </div> <div style="margin-right: 10px;"> <p>▶</p> </div> <div> <p>Period ending March2023+ 3.8step</p> </div> </div>  <p style="font-size: small; text-align: center;">■ Period beginning July2022 ■ Period ending March2023</p>																																
<b>Resona Asset Management</b>	<p>Started in 2021.</p> <p>Engagement based on the analyses of integrated reports using AI. The improvement of corporate value of investee companies is sought by setting the encouragement of disclosure and improvement of quality of integrated reports as the interim target and a trigger. At present, the scope is expanded to the Securities Report and also to TCFD-based analysis.</p>	 <p style="font-size: x-small; text-align: center;">Legend: FY2021 (Blue), FY2022 (Red)</p>																																



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

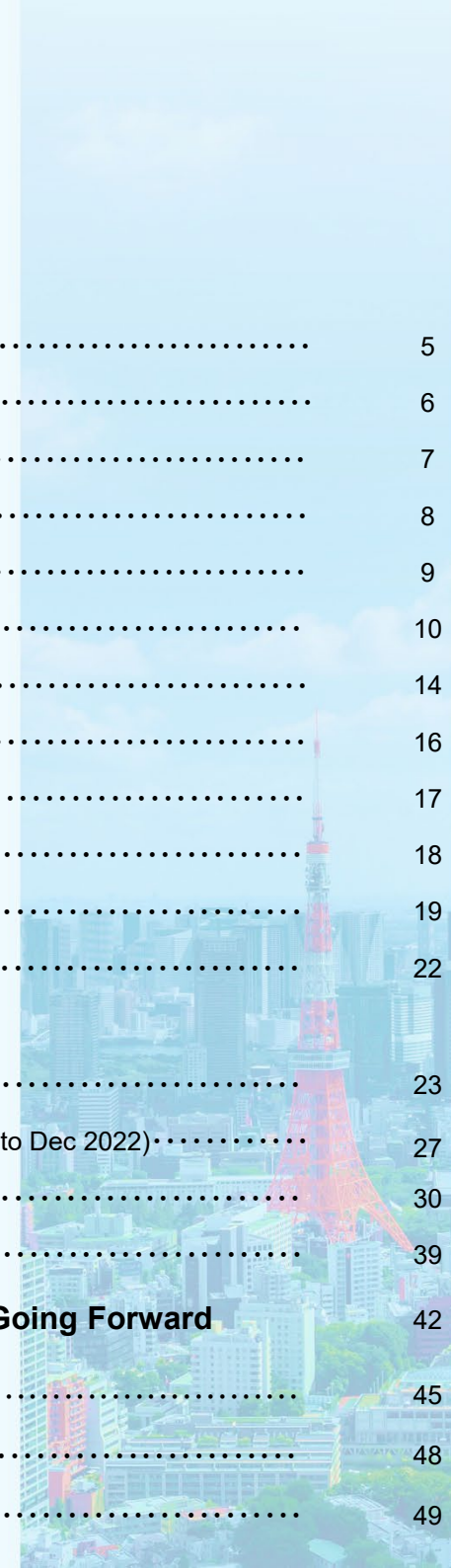
1. Introduction	5
2. History of GPIF's Stewardship Activities	6
3. Stewardship Activities for GPIF	7
4. Status of Participation in Global Initiatives	8
5. Initiatives for the Sustainable Growth of the Whole Capital Market	9
6. Engagement with External Asset Managers	10
7. Assessment of "Stewardship Activities" by Asset Managers for Equity Investment	14
8. Assessment of "Stewardship Activities" for Other Assets – Fixed Income Investment	16
9. Assessment of "Stewardship Activities" for Other Assets – Alternative Investment	17
10. Engagement with Index Providers	18
11. Initiatives for Promoting Dialogues between Asset Managers and Investee Companies	19
12. Enhancing Collaboration with Relevant Organizations	22

## **Chapter 2 Initiatives and Challenges of External Asset Managers**

1. GPIF's View on Current Status of External Asset Managers	23
2. Status of Engagement by Domestic External Asset Managers Entrusted with Japanese Equities (Jan 2022 to Dec 2022)	27
3. Passive Investment Models Focusing on Stewardship Activities "Engagement-enhanced Passive"	30
4. Critical ESG Issues	39

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

Status of Exercise of Shareholders' Voting Rights (Apr 2022 to Jun 2022)	45
Stewardship Principles	48
Proxy Voting Principles	49





# Chapter 1 Stewardship & ESG Activities of GPIF





## 1. Introduction

### **GPIF signed Japan’s Stewardship Code (hereinafter, “the Japan Code”) in May 2014.**

In the Japan Code, “stewardship responsibilities” refers to the responsibilities of institutional investors to enhance medium- to long-term investment returns for their clients and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue (engagement), based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.

In accordance with the Policy to Fulfill Stewardship Responsibilities which GPIF formulated for the signing, GPIF will endeavor to achieve its mission to contribute to the stability of pension system management by focusing on the expansion of long-term investment returns for pension recipients through various activities to fulfill the stewardship responsibilities.

The Japan Code consists of the following eight principles.

#### The Principles of the Code

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.
5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.
6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.
7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.
8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

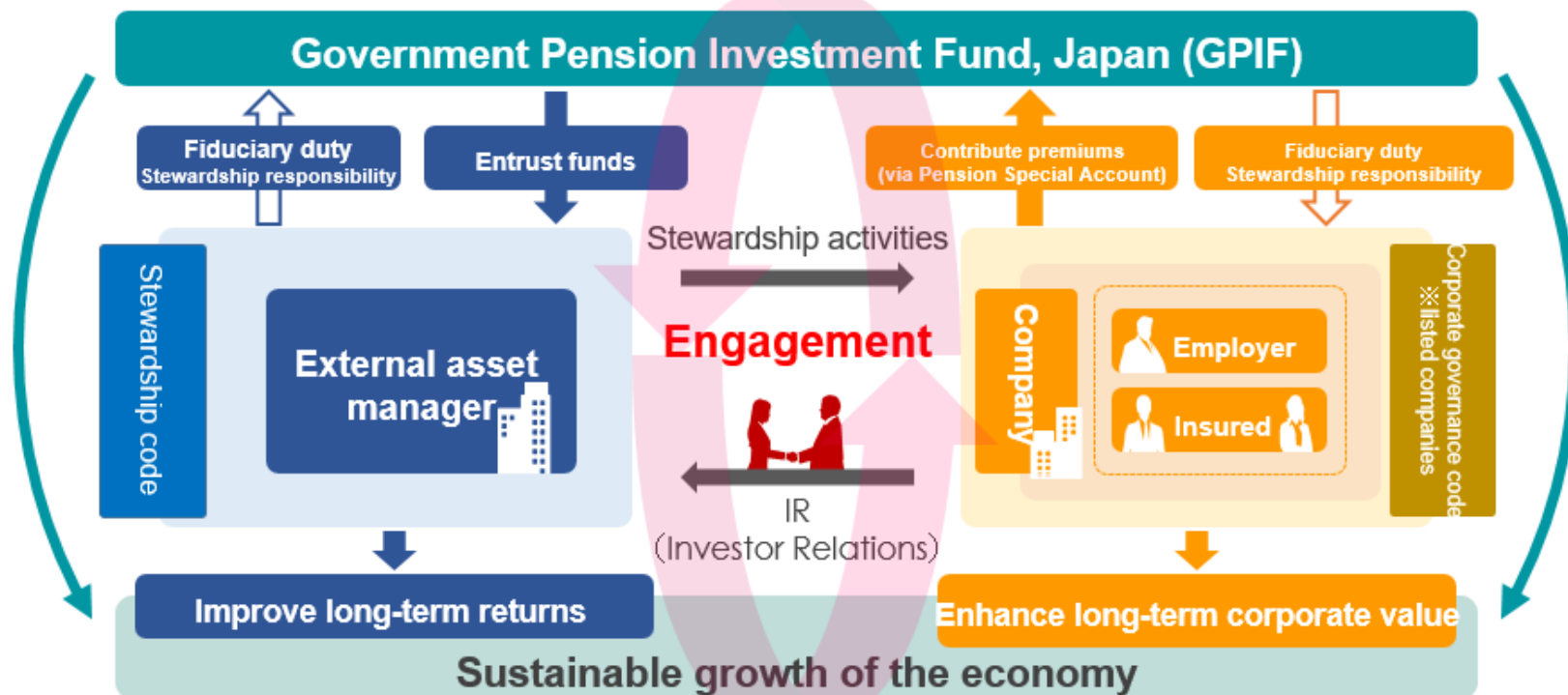
## 2. History of GPIF's Stewardship Activities



### 3. 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.**



## 4. Status of participation in global initiatives

Signatory of:



### 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. Participated in Asset Owner Technical Advisory Committee, Global Policy Reference Group and Japan Network Advisory Committee. In the recent assessment, we were awarded ★★★★★ ratings for Investment & Stewardship Policy.



### 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.



### 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.



### 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.



### 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.

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

As a cross-generational investor and a universal owner, it is indispensable for GPIF that the whole capital market grows in a sustainable manner. Prohibited from in-house investing of equity 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 gain in importance as non-financial information disclosure becomes more significant going forward.

GPIF participates in the following domestic organizations which promote disclosure. Agreeing with the purpose of the JPX ESG Knowledge Hub, GPIF has been a supporter since its establishment in November 2020. In February 2023, GPIF also participated in the ESG Disclosure Study Group.



Participated as a supporter in November 2020.

- ESG Knowledge Hub was established in November 2020 by JPX from the viewpoint of promoting disclosure of ESG information by listed companies for the purpose of enabling one-stop access to content and information which will help understand the ESG investments, and making the ESG Knowledge Hub a community that connects listed companies, investors, and related organizations.
- The purposes of ESG Knowledge Hub is consistent with significance of GPIF's stewardship activities that is 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 Japanese stock market.
- GPIF agreed with the purpose of its establishment, and participated as a "supporter" from the beginning, with a qualification for participation as an investor and related organization. (As of now, there are approximately 50 supporters, consisting of domestic and overseas investors as well as related organizations including ministries and other government agencies.)



一般社団法人

ESG情報開示研究会

Participated as an observer in February 2023.

- The major challenge for many Japanese companies and institutional investors is how they should face the trend of ESG disclosure that has been dramatically changing globally. ESG Disclosure Study Group was established in June 2020 with the aim of providing listed companies and investors with opportunities for free and open discussions while enriching ideas on the ideal disclosure of non-financial information, which will contribute to the long-term improvement of corporate value, while paying close attention to global trends.
- Main activities include: 1) search for effective and efficient framework of ESG information disclosure, 2) accumulation of implementation examples (verified) relating to ESG information disclosure, 3) promotion of mutual understanding among stakeholders for better decision making, and 4) publication of white papers on the study results.

## 6. Engagement with External Asset Managers

- GPIF conducts communication with external asset managers by “engagement model” that emphasizes on two-way communication while expressing our way of thinking toward stewardship responsibilities. Regarding meetings with external asset managers, GPIF has also established a system to hold meetings and conduct questionnaire surveys as necessary such as stewardship meetings according to ad-hoc themes and necessary issues, in addition to the general evaluation meeting held on an annual basis.
- In 2022, GPIF held most of the meetings online due to the COVID-19 pandemic as in the previous year. With online tools, the number of meetings and seminars hosted by asset managers increased, as well as opportunities for dialogues and information exchanges with overseas asset managers. In the second half of the year, some local offices resumed in-person meetings owing to the easing of travel restriction.
- GPIF hold briefings for external asset managers in addition to individual meetings when we establish new policies or implement significant changes. We focus on two-way communication by exchanging opinions and providing feedback in order to adequately explain the background and concepts of these policies and changes, through Q&A sessions and follow-up questionnaires.
- Since GPIF selected new foreign equity managers in 2022, briefings for external asset managers were held as follows, in addition to individual engagement including new asset managers concerning GPIF’s way of thinking and the matters required of external asset managers.

### <Briefing for external asset managers>

- Held in February 2023.  
GPIF explained “Review of the 4th Medium-term Target Period and Future Prospects” (Source: Materials for the Committee of Pension Fund Management), bidirectional communication, stewardship, and other matters, followed by discussion.

### <Exchange of opinions with the third-party committee members of external asset managers>

- Under the Japan Code, “Institutional investors are required to establish and announce governance systems such as an independent board of directors and a third-party committee which decides on and supervises the exercise of voting rights in order to prevent conflicts of interest, etc.” GPIF also believes that an independent board of directors and a third-party committee play extremely important roles in securing independence and transparency as asset managers and in preventing conflicts of interest.

- Therefore, we continuously hold meetings with outside directors and the third-party committee members of our external asset managers who assume such important roles. At the meeting for 2022, we explained our stewardship activities and what we ask of the asset managers, and exchanged opinions on a wide range of themes such as the status of the committee's activities, effectiveness of governance and management of conflicts of interest, and diversity such as women's participation within the asset managers.
- At the previous meeting which was held right after many asset managers established a third-party committee, the discussion was mainly on the solution of the existing problems including independence of the asset management divisions and conflicts of interests such as exercising voting rights. Now that almost all of such problems have been solved and organized, it seems that the central issues have shifted to forward-looking discussions for the future.

### <Supporting status for the PRI and TCFD by external asset managers>

- In the Stewardship Principles, GPIF has stipulated “ESG integration into the investment process” and requires our external asset managers to sign the PRI. In the revision in February 2020, GPIF also requires our external asset managers to proactively participate in various initiatives.
- GPIF conducted a questionnaire survey and interviews with our external asset managers entrusted with equity and fixed-income, asking the status of their participation in initiatives such as PRI and TCFD. The status of support for the PRI and TCFD, as well as the status of their disclosure are outlined below. Participation in TCFD is an example of initiatives, to which an increasing number of Japanese companies have expressed their support.
- All external asset managers, including newly appointed, entrusted with equity, fixed-income, and alternative asset investments, are signatories of the PRI.
- 90% of external asset managers have expressed their support for TCFD, including those who have supported TCFD in their corporate group. Many asset managers who have not expressed their support are currently under review.
- Of the asset managers who agree with TCFD, 85% have implemented the disclosure. Some asset managers are now considering disclosure for the next fiscal year. Some issued independent publications such as a TCFD Report or Climate Report, and others posted their disclosure as a part of their sustainability report or similar publication. Also, some asset managers posted announcement on their websites, or regarded the PRI reporting as their disclosure. Many asset managers are positive toward better disclosure in any way.
- In many cases TCFD disclosure is the engagement theme with investee companies. Knowledge and experience of disclosure by asset managers are likely to serve as reference and encouragement to corporate disclosure while sharing the current status.

## <Critical ESG issues listed by asset managers>

- In the Stewardship Principles, GPIF states “ESG integration into the investment process.” Based on this, GPIF conducts a questionnaire survey and interviews every year concerning “Critical ESG issues” selected by each external asset manager entrusted with equity.
- The interview results were published in March 2023 as “Critical ESG Issues listed by GPIF’s asset managers” on the following site: [https://www.gpif.go.jp/en/investment/20230420\\_esg\\_issues\\_en.pdf](https://www.gpif.go.jp/en/investment/20230420_esg_issues_en.pdf)
- Please refer to [page 39](#) for “Critical ESG Issues” listed by GPIF’s asset managers entrusted with equity. The changes in invested domestic equities for the past three years are also on [page 41](#).
- Based on the results, GPIF ascertained why they highlighted such issues and how they engage with investee companies regarding them.
- GPIF also ascertained the “Critical ESG Issues” considered by each asset manager entrusted with fixed income ([see page 40](#)). Questions on fixed income investment were asked on the assumption of corporate bonds. For government and public bonds, GPIF received open answers 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 “8th Survey of Listed Companies Regarding Institutional Investors’ Stewardship Activities” conducted in January 2023.

## <ESG integration>

- GPIF is committed to “ESG integration into the investment process” in the Stewardship Principles. In the Stewardship Activities Report 2021, 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 (for equity and fixed-income) in 2019, GPIF began including the assessment of ESG Integration as part of “Investment process.” ESG Policy, ESG data gathering and importance analysis, assessment of impact on the corporates/sectors, 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”.



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

In the Proxy Voting Principles, GPIF asks our external asset managers to publicly disclose proxy voting records for each investee company. The following are asset managers for domestic equities. 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)]

Asset managers entrusted with equity investment	Websites of the disclosure of proxy voting records
Asset Management One	<a href="http://www.am-one.co.jp/company/voting/">http://www.am-one.co.jp/company/voting/</a>
Invesco Asset Management (Japan)	<a href="https://www.invesco.com/jp/ja/policies/proxy.html">https://www.invesco.com/jp/ja/policies/proxy.html</a>
Capital International (Capital International, Inc.)	<a href="https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html">https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html</a>
Schroders Investment Management (Japan)	<a href="https://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/">https://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/</a>
Nomura Asset Management	<a href="https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html">https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html</a>
FIL Investments (Japan)	<a href="https://www.fidelity.co.jp/about-fidelity/policies/investment/voting">https://www.fidelity.co.jp/about-fidelity/policies/investment/voting</a>
BlackRock Japan	<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>
Sumitomo Mitsui DS Asset Management	<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>
Sumitomo Mitsui Trust Asset Management	<a href="https://www.smtam.jp/company/policy/voting/result/">https://www.smtam.jp/company/policy/voting/result/</a>
Mitsubishi UFJ Trust and Banking	<a href="https://www.tr.mufig.jp/houjin/jutaku/about_stewardship.html">https://www.tr.mufig.jp/houjin/jutaku/about_stewardship.html</a>
Lazard Japan Asset Management	<a href="https://www.lazardassetmanagement.com/jp/ja_jp/references/sustainable-investing">https://www.lazardassetmanagement.com/jp/ja_jp/references/sustainable-investing</a>
Russell Investments Japan (Russell Investments Implementation Services, LLC.)	<a href="https://russellinvestments.com/jp/legal/proxy">https://russellinvestments.com/jp/legal/proxy</a>
Resona Asset Management	<a href="https://www.resona-am.co.jp/investors/giketuken.html">https://www.resona-am.co.jp/investors/giketuken.html</a>

Note: Names in parentheses indicate subcontractors. URLs are based on information as of March 10, 2023.

## 7. 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, we believe 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 the May 2017 revision to Japan’s Stewardship Code, the importance of dialogue in passive investment is clarified, and 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, ESG to fulfill stewardship responsibilities has been growing increasingly important.
- 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.
- 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 a system in which more substantial activities are highly evaluated. This new assessment system has been adopted starting from 2020 comprehensive assessment.
- In this assessment, we exchange opinions on how asset managers are working on stewardship activities, while confirming the following points. Information obtained from external providers is also referred.
  - ✓ **Framework (organizations, management of conflicts of interest)**
  - ✓ **Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)**
  - ✓ **Stewardship activities (policy, status, implementation of engagement)**
  - ✓ **ESG activities including responses to their critical ESG issues listed by asset managers**

- ✓ **Exercise of voting rights (topics, cases where judgments are divided within asset managers, process of judgments on exercising shareholder proposals, and others)**
  - ✓ **Responses to GPIF’s Stewardship Principles and Proxy Voting Principles, including disclosing the details of proxy voting records**
- In cases we acknowledge concerns about governance of external asset managers, such as conflicts of interest, through reports and interviews, we communicate our concerns and engage in various opportunities, aiming to alleviate such concerns.

Weight	Equity passive	Equity active
Investment policy, investment process, organization, human resources, etc.	70%	90%
<b>Stewardship responsibilities</b>	30%	10%
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	

## **8. Assessment of “Stewardship Activities” for Other Assets – Fixed income investment**

- The scope of assets under the Stewardship Responsibilities was expanded to include all assets in accordance with the revised UK Stewardship Code that took effect in January 2020 (“The UK Stewardship Code 2020”). While the assets subject to assessment had been assumed to be Japanese listed equities, it was explicitly stated in the second revision of the Japan Code in March 2020 that other assets are also applicable. Accordingly, the stewardship activities of fixed-income investors have made further progress.
- In response to the second revision to the Japan Code, GPIF expand the scope of assets subject to the “Policy to Fulfill Stewardship Responsibilities” from equity to all assets including fixed income in June 2020, and has been considering assessment methods for fixed income asset managers. As part of such initiatives, GPIF conducted a questionnaire survey on stewardship activities by external asset managers for fixed income in 2020. In the survey, GPIF ascertained the current measures on overall stewardship activities by external asset managers, including the status of implementation of engagement activities, as well as their future plans and challenges.
- Based on the above, stewardship activities by external asset managers for fixed income have been assessed since FY2022 in terms of their contribution to encouraging the sustainable growth of investee companies and reducing credit risks.
- At this stage, it is hard to say that evaluation methods for individual engagement have been established. Therefore, their stewardship activities will be evaluated in an item of “organization and human resources”, by assessing the status of establishment of organizations and human resources for stewardship activities, including policies and systems such as stewardship policies and the management of conflicts of interest.
- GPIF makes assessments on the status of organizations and human resources to implement stewardship activities by external asset managers, while confirming the following points.
  - ✓ **Framework (organizations, management of conflicts of interest)**
  - ✓ **Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)**
  - ✓ **Policy for Stewardship Activities**
  - ✓ **Response to the GPIF’s Stewardship Principles (applicable items), etc.**

## 9. Assessment of “Stewardship Activities” for Other Assets – Alternative Investment

- Alternative assets (infrastructure, real estate, private equity) are an asset class in which asset managers may have an impact directly on ESG activities of investee companies. As a result, mainly global investors focusing on ESG has been increasing when selecting investment managers. At GPIF, stewardship responsibilities and the initiatives for ESG have been critical item for evaluation since starting 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 evaluates their initiatives for stewardship responsibilities in the comprehensive assessment. As the fund of funds type investment has been currently adopted in alternative investment, we exchange opinions concerning how the gatekeepers and fund of funds managers implement stewardship activities. Evaluation items are listed below.
  - ✓ **Framework (organizations, management of conflicts of interest, etc.)**
  - ✓ **Endorsement status of the Principles for Responsible Investment (PRI)**
  - ✓ **Stewardship activities including ESG (policy, status, implementation of engagement, and response to ESG issues according to the characteristics of the assets)**
- In March 2020, as a real estate investor member, GPIF joined “GRESB\*,” an initiative providing a benchmark for ESG (Environmental, Social, and Governance) in real estate and infrastructure investments. In August 2022, GPIF joined GRESB as Japan’s first infrastructure investor. In the assessment of external investment managers, GPIF also confirms the status of their use of data provided by GRESB.
- While all investment managers are signatories to the PRI at the level of gatekeepers and fund of funds managers, not all managers at the investee funds are necessarily so.
- When choosing investment destination, both gatekeepers and fund of funds managers confirm ESG activities of investee. After appointment, they conduct engagement with investee, 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, real estate funds, infrastructure business operators and infrastructure funds on an annual basis. According to the annual assessment for 2021, more than 1,500 real estate companies and funds and more than 700 infrastructure business operators and funds participated, and the amount of the subject real assets reached approximately 6.4 trillion U.S. dollars. More than 150 institutional investors use the assessment results to select investee companies to conduct monitoring and engagement as investor members.



GRESB® and the related logo are trademarks owned by GRESB BV and are used with permission.

## **10. Engagement with index providers**

- In passive investment, the important factor of success is benchmark selection, rather than the investment skill. However, asset owners including GPIF have not exerted much efforts for selecting benchmarks as it should be. With that in mind, GPIF partially introduced the “Index Posting System” in FY2019 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, as we have gradually acknowledged the significance of assessment of index providers’ organization structure as well as governance system when 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 investor-oriented decision-making, according to their increasing presence year after year.
- Since April 2022, the “Technical Committee for ESG Evaluation and Data Providers, etc.”, established under the FSA, has discussed the current status concerning ESG rating and data, the challenges of the related parties to provide and use ESG rating and data appropriately, the future prospect, and other wide scope of items. At the 15th Expert Panel on Sustainable Finance in December 2022, the “Code of Conduct for ESG Evaluation and Data Providers” was reported and then published. The FSA urged ESG rating agencies and data providers to accept the said Code of Conduct, and called on them to announce on their own websites and inform the FSA that they accepted it if they decided to do so. The FSA plans to publish the status of agreement and acceptance in June 2023, and the status regarding the provision of data in the Code of Conduct in June 2024 in a form of list which GPIF will look into.
- 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 changing index methodologies and ESG assessment methodologies. GPIF encourages external asset managers to give similar attention.
- GPIF has been reviewing our contract style 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.

## 11. 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 status 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. Due to changes in the TSE’s market segments, the subjects were changed to the constituents of TOPIX in the eighth survey conducted in January 2023.
- 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.
- In the seventh survey conducted in January 2022, 709 companies responded, which accounted for 32.5% of the subject 2,183 companies listed on the TSE’s first section.
- The overview of the survey results is as follows:
  - For the first time, more than 50% of the companies responded that they had observed desirable changes in institutional investors.
  - The time frame of the long-term vision of companies has been further extended.
  - The number of companies that make voluntary disclosure of non-financial information has significantly increased.
  - Awareness of ESG themes has been raised reflecting the revision to Japan’s Corporate Governance Code.
- The result of the survey is available here: [https://www.gpif.go.jp/en/investment/summary\\_report\\_of\\_the\\_7th\\_survey.pdf](https://www.gpif.go.jp/en/investment/summary_report_of_the_7th_survey.pdf)



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

- GPIF considers integrated reports as an important tool of constructive dialogue to improve 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 published excellent integrated reports, with an aim of encouraging companies to start publishing or enhancing integrated reports, as well as encouraging investors to utilize them. For the seventh year, GPIF requested asset managers to nominate up to 10 “excellent integrated reports” and 10 “most-improved integrated reports” in December 2022. GPIF compiled the result and announced them in February 22, 2023.
- In this report, we have also included “The Status and Method of Use of Integrated Reports by GPIF’s Asset Managers,” anticipating that Integrated Reports will serve as meaningful disclosure for both asset managers and investee companies. (For details including asset managers’ comments, please see the following website:  
[https://www.gpif.go.jp/en/investment/excellent.most-improved-integrated-reports\\_2023\\_03.pdf](https://www.gpif.go.jp/en/investment/excellent.most-improved-integrated-reports_2023_03.pdf) )
- We received positive feedback from companies, such as “the management began to pay more attention to the integrated reports,” “Found more active collaboration among relevant staff and departments,” “Raised awareness of the integrated reports within the company,” “Observed PR effects through the company website and social media,” “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 asset managers for domestic equities named a total of 67 companies for their “excellent integrated reports.” The following companies were highly evaluated by four or more respondents as publishers of “excellent integrated reports.”

◇ ITOCHU Corporation	7 asset managers	◇ RICOH COMPANY, LTD.	6 asset managers
◇ Hitachi, Ltd.	6 asset managers	◇ Tokio Marine Holdings, Inc.	5 asset managers
◇ OMRON Corporation	6 asset managers	◇ Ajinomoto Co., Inc.	4 asset managers

### ○ Most-improved Integrated Reports

GPIF’s asset managers entrusted with domestic equity investment named a total of 95 companies for the “most-improved integrated reports.” There were no reports that were highly evaluated by four or more respondents as publishers of the “most-improved integrated reports.”



## <<“Excellent TCFD Disclosure” selected by GPIF’s asset managers entrusted with equity investment>>

- The Corporate Governance Code revised in June 2021 stipulates that “companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.”
- Examples of companies that have provided TCFD disclosure ahead of others are useful for other companies that intend to implement TCFD disclosure in the future. TCFD is a framework of disclosure shared worldwide, and we believe that referring to examples of companies outside Japan will be also meaningful. Therefore, following last year, we request our external asset managers entrusted with domestic and foreign equities to select “excellent TCFD disclosure.”
- GPIF asked asset managers entrusted with equities to nominate up to five companies that provided “excellent TCFD disclosure,” and also to nominate up to three companies that provided “excellent disclosure of (1) governance, (2) strategy, (3) risk management, and (4) metrics and targets,” respectively. GPIF compiled the results and announced them in March 2023.
- TCFD has been a topic in discussions for international disclosure standards and its significance is expected to further increase going forward. Since TCFD disclosure will likely become indispensable for global companies in the future, GPIF will continue to announce the result of “excellent TCFD disclosure.”

### ○ Excellent TCFD Disclosure (Japanese companies)

GPIF’s asset managers entrusted with domestic equities named a total of 28 companies for their “excellent TCFD disclosure.” The following companies were highly evaluated by four or more respondents as publishers of “excellent TCFD disclosure.”

- |  |  |
|--|--|
| ◇ <b>Kirin Holdings Company, Limited</b> 10 asset managers | ◇ <b>Hitachi, Ltd.</b> 7 asset managers      |
| ◇ <b>RICOH COMPANY, LTD.</b> 5 asset managers              | ◇ <b>ITOCHU Corporation</b> 4 asset managers |

Please visit the website for details, including the comments of the asset managers [https://www.gpif.go.jp/en/investment/202305\\_excellent\\_TCFD\\_disclosure\\_en.pdf](https://www.gpif.go.jp/en/investment/202305_excellent_TCFD_disclosure_en.pdf)

### ○ Excellent TCFD Disclosure (overseas companies)

GPIF’s asset managers entrusted with foreign equities named a total of 60 companies for their “excellent TCFD disclosure.” Among them, the following companies were highly evaluated by three or more respondents as publishers of “excellent TCFD disclosure.”

- |   |   |
|---|---|
| ◇ <b>BHP GROUP LTD</b> 4 asset managers | ◇ <b>MICROSOFT CORP</b> 4 asset managers          |
| ◇ <b>CITIGROUP INC</b> 3 asset managers | ◇ <b>JPMORGAN CHASE &amp; CO</b> 3 asset managers |

Please visit the website for the details, including the comments of the asset managers [https://www.gpif.go.jp/en/investment/202303\\_excellent\\_TCFD\\_disclosure\\_en.pdf](https://www.gpif.go.jp/en/investment/202303_excellent_TCFD_disclosure_en.pdf)

## **12. Enhancing Collaboration with Relevant Organizations**

### **<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 and others. 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 2023):  
[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 not to hold the conference in 2020 and 2021 due to the COVID-19 pandemic. In 2022, individual meetings were held at the time of various conference opportunities or their visit to Japan. There were also opportunities for exchanging opinions on not only stewardship and ESG but also a wide range of matters including asset management in general or risk management.

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

October 2022: "TCFD Summit 2022" hosted by METI (Ministry of Economy, Trade and Industry).

November 2022: IFC Japan Day

November 2022: PRI Webinar Series

November 2022: Paris Europlace Tokyo International Financial Forum 2022

November 2022: Japan Investment Conference 2022 hosted by CFA Society Japan



# **Chapter 2 Initiatives and Challenges of External Asset Managers**



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

### <External Asset Managers' Governance Structures and Management of Conflicts of Interest with Their Parent Companies>

The form in its entirety is well-organized, despite some problems remaining. Continuous consideration, reviews and improvement should be done to make it more effective.

- In the past few years, at Japanese asset managers for equities, organizational segregation aimed at preventing conflicts of interest between the asset management divisions and other divisions has been promoted, including by way of company split or integration of the asset management divisions. In a case where the divisions were split and organized as a separate company, various initiatives are quickly put into practice under the leadership of the top management.
- The compensation schemes for executives and employees of 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.
- At all Japanese asset managers, the formalistic aspect is well-organized with the appointment of outside directors and the establishment of a third-party committee consisting mainly of outside directors. Some asset managers appointed senior executives and officers from outside of the company.
- some asset managers seem to have challenges in identifying investees to be managed in terms of conflicts of interest, in responding to misconduct when it occurred in their parent company or group companies, including exercise of voting rights. Meanwhile a certain level of improvement has been observed in the responses to exercise of voting rights to parent company or group companies.
- It was revealed that some foreign asset managers have no organizational segregation or no tangible scheme secured from outside to prevent conflicts of interest, which indicates that their superiority has no solid basis as expected. Some asset managers, however, sought to enhance management on the assumption that conflicts of interest would occur in a wide range of entities, including all discretionary investment customers and their parent companies.
- Going forward, in order to further make it more effective, the improvement of transparency will be also expected in addition to continuous consideration, reviews, and upgrading.
- 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 group companies, there are some cases in which the current rules for decision processes for shareholder proposals are unable to function to the fullest. While some asset managers have already changed their decision processes, GPIF will continue to request other asset managers to improve that as one of their future challenges.

## <Organization, systems, policies, etc. in the stewardship activities>

- The overall quality has been improved in both activities and its speed conducted by each asset manager. In addition to their companywide commitments, in the case where an asset manager is a member of a financial group, the group as a whole has more strongly committed itself to stewardship and ESG.
- Most external asset managers, both in passive and active investment, have developed policies for engagement and ESG. Their corporate principles and philosophy are applied to each policy, and developed to continue initiatives as a corporate body, which are reviewed on a regular basis. As for domestic equity investment, initiatives have become more advanced by taking actions from an early stage, corresponding to changes in the business environment, including responses to the enactment of the revised Corporate Governance Code and the review of market segments.
- In stewardship reports, some asset managers established and disclosed their stewardship activity plans from medium- to long-term perspectives, including specific priority and other activities planned for several years ahead, while others demonstrated their best practices for governance.
- In the past a few years, some passive and also active managers have established and enhanced a designated department in charge of stewardship activities. On the other hand, in some recent cases, reorganization is implemented within the asset management divisions, from a perspective of collaborating with investment teams.
- As mentioned above, while active managers implement engagement, 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. The collaboration between investment and stewardship activities has advanced in the former case. For the latter case, it would be important to consider that the commitment of the fund manager, reflecting it in the compensation system, the leadership to design more organized activities, and who and how to lead the coordination with external parties in collaborative initiatives, etc.
- Information sharing has advanced by introducing in-house platforms and systems which unitarily manage global engagement, and some asset managers recently focus on data analysis by using data scientist teams.
- Because of the characteristics of the job, the principal members engaging in stewardship activities and engagement are often relatively well-experienced. However, these employees retiring in recent years, teams tend to be more sustainable by appointing younger employees including new graduates and personnel with diversified backgrounds.
- Among domestic and foreign equity funds as well as foreign fixed income funds, there are several SFDR 8-qualified funds (mostly due to their businesses and customers in Europe).
- As various initiatives were implemented, GPIF's Stewardship Principles and Proxy Voting Principles seem to have penetrated to a certain extent in asset managers for equities. Going forward, we will conduct dialogues with asset managers for fixed income as well.

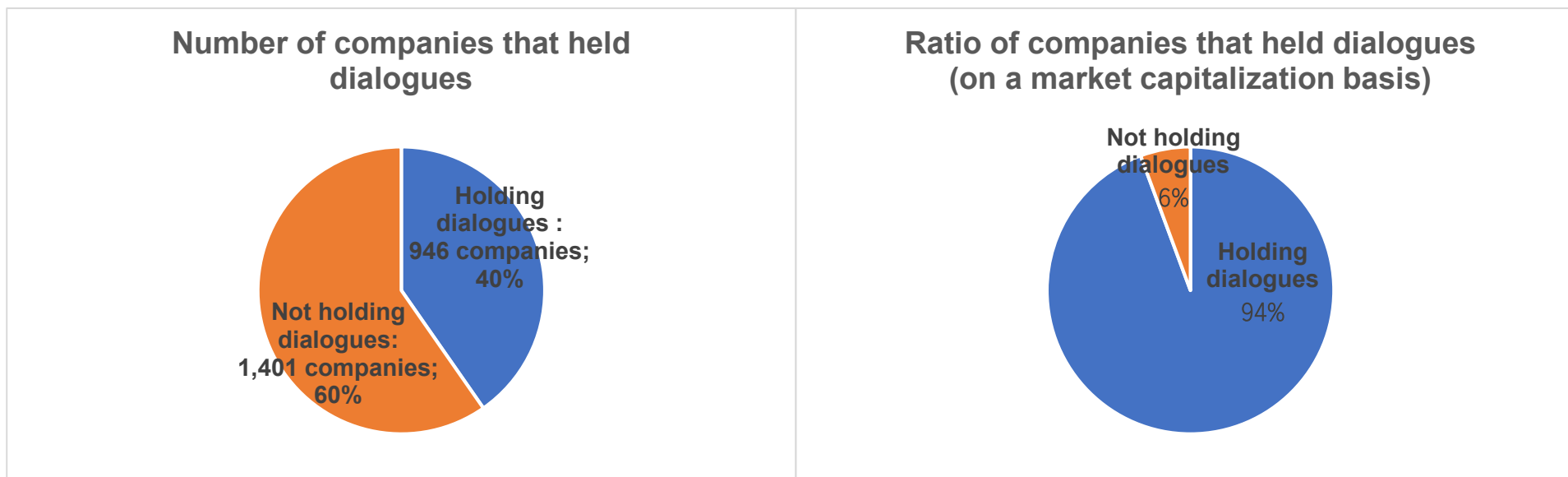
## <Stewardship Activities on Equity Investment: Engagement>

- Some external asset managers send letters to investee companies as a tool to communicate their views or an opportunity to start dialogues with the management. Continuous monitoring is necessary to see how they develop engagement by using letters as the starting point.
- All asset managers for domestic and foreign equities answered that they have taken measures for ESG issues. Some other asset managers implement dialogues concerning ESG in their engagement with small-and medium-sized companies.
- We believe that integrated reports and corporate governance reports are both primary tools for two-way communication upon measures for ESG issues as well as engagement. While we recognize that asset managers have been moving forward on their use of those tools, we expect analysts and fund managers, in addition to specialists in stewardship and ESG, to use these reports further. Going forward, it is expected that further expansion of disclosure will be required, such as sustainability disclosure for Securities Reports, and TCFD and ISSB disclosure standards for global disclosure in addition to integrated reports. Therefore, it will be important to consider how such disclosure can be effectively utilized in asset management and engagement.
- Some managers including Japanese asset managers are promoting reform measures of not only investee companies but also the entire investment chain, by submitting public comments to overseas regulatory authorities, or engaging with stock exchanges and index providers proactively.
- Japanese asset managers participate in collaborative engagement such as CA100+ more proactively than foreign asset managers. As a whole, more and more asset managers join global initiatives, utilizing them as platforms to gain expertise and conduct joint engagements.
- More asset managers, both in passive and active investment, have participated in joint engagement even though they had previously focused on engagement solely by themselves. The status of use of joint engagement varies among asset managers, though. GPIF will continue to ascertain how they are actually involved in and utilize the collaborative engagement going forward.
- Many asset managers not only participated in joint initiatives but also worked together from the establishment phase. The Net Zero Asset Managers initiative, launched in December 2020, comprises the majority of GPIF's external asset managers, and in some cases they interviewed GPIF's way of thinking with reporting their plans ahead. In FY2022, the establishment of Nature Action 100 was announced and PRI Advance was launched, as new joint initiatives concerning biodiversity or human rights. GPIF will make sure how they will be involved in such initiatives.

## <Stewardship Activities on Equity Investment: Exercise of Voting Rights>

- We positively assess asset managers depending on the case, when they exercised their voting rights in a way that is not necessarily pursuant to voting policies but in line with their activities or actual situations as a result of engagement. As we consider voting along with engagement, we expect them to take measures that will contribute to enhancing long-term corporate value. Some asset managers send out strong messages in voting policies and utilize them for engagement, while others have introduced cross-shareholding systems and TSR standards.
- In the announcement of the results of exercising individual voting rights by asset managers for domestic equities, there were differences in timing, frequency, and items of disclosure, although many asset managers made quarterly disclosures so that the announced results would be of help in the dialogue after the general meeting of shareholders. Some cases seemed to be inappropriate for dialogues with companies towards next year's general meeting of shareholders. Meanwhile some active foreign asset managers provided direct feedback on voting results from the person in charge to their investee companies and send documents to inform the results and reasons for opposing an investee company's proposal. The disclosure of voting guidelines and voting results by Japanese asset managers tends to be more enhanced. Some asset managers for foreign equity published their approval or disapproval of the voting decision in advance as part of their engagement escalation strategy.
- 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, or by providing 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 voluntarily disclose the result of exercise of voting rights.
- When some asset managers for domestic equities asking their investees to increase independent external directors as well as diversity, they allow an almost one-year grace period from the announcement of change in voting policy before taking effect, and inform their investees of the change and implemented engagement during such a period.
- 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 used the recommendations of advisory firms for the exercise of voting rights of the investees other than those requiring management of conflicts of interest. Even when using proxy advisory firms, for subject to engagement activities, GPIF requires asset managers to make final decisions by themselves, taking into account the status of engagement and the contents of proposals. GPIF uses the result of recommendations provided by ISS and Glass Lewis for analysis after the General Meeting of Shareholders.
- Regarding voting instruction errors, administrative errors made by custodians, and unexercised votes, we have requested asset managers and custodians to take appropriate measures, considering the importance of exercising voting rights.

## 2. Status of Engagement by Domestic External Asset Managers Entrusted with Japanese Equities (January 2022 to December 2022)



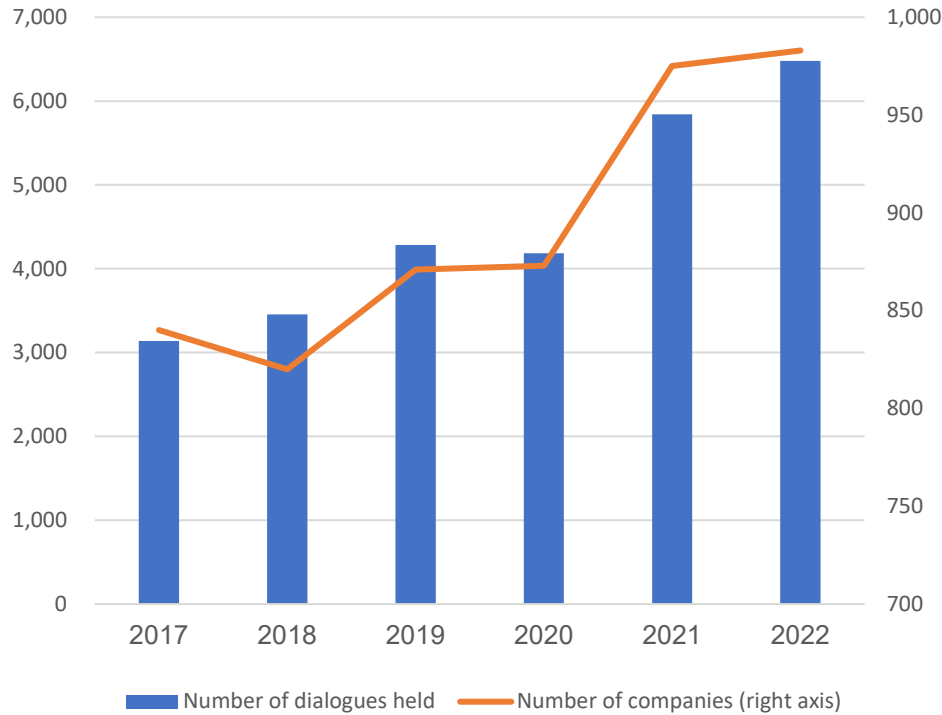
Note: Each ratio was calculated using the number of domestic companies whose shares are held as of March 31, 2022, as a denominator.

The total number of companies with which engagement was conducted by GPIF's external asset managers for domestic equities from January 2022 to December 2022 was 946.

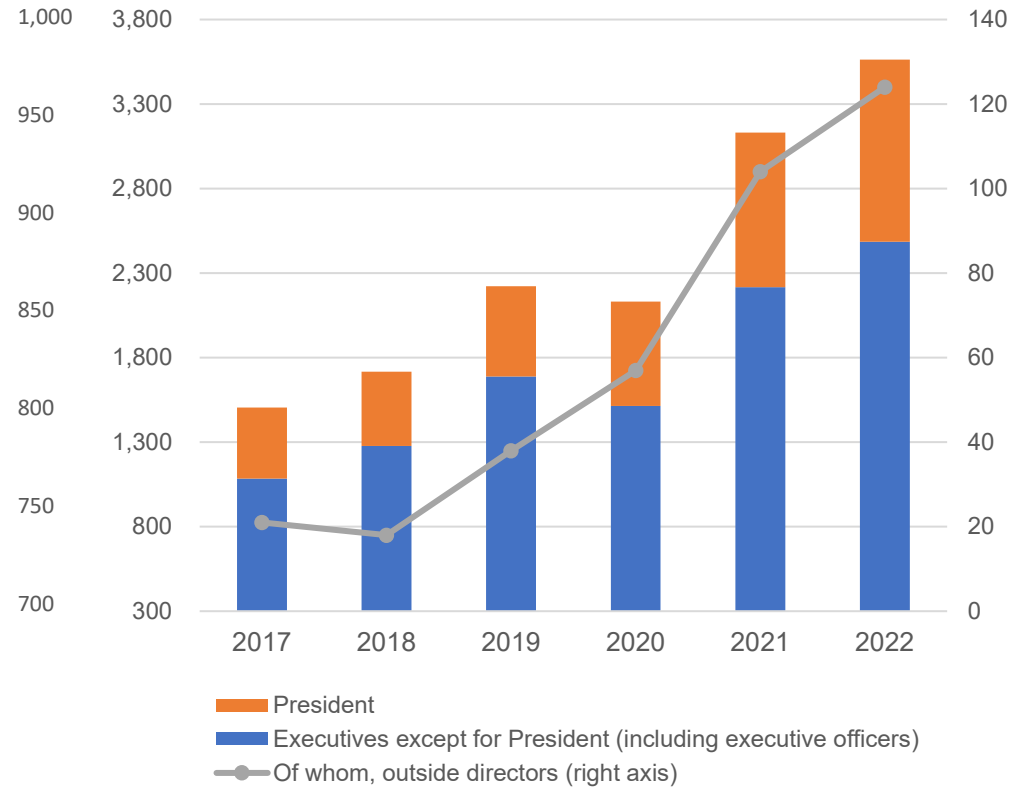
In terms of the number of companies, engagement was conducted with 40% of the companies whose shares are held. In terms of market capitalization, engagement was conducted with 94% of the companies.



Trend of number of dialogues and companies



Trend of number of dialogues with executive levels



The above charts represent the trend of the number of dialogues held from January to December every year in the past six years. While a temporary drop in the number of dialogues is recorded in 2020 in which the COVID-19 pandemic broke out for the first time, the number of engagements increased compared with the past years. The chart on the right represents the status of engagement conducted with executive levels. Please note that GPIF does not highly evaluate asset managers only with the number of engagements in order to avoid the increase in perfunctory interviews.



(Left chart)

The chart represents ESG engagements by theme conducted by GPIF’s asset managers for domestic equities from January 2022 to December 2022. Governance includes the explanations on agenda of general meetings and related dialogues.

(Right chart)

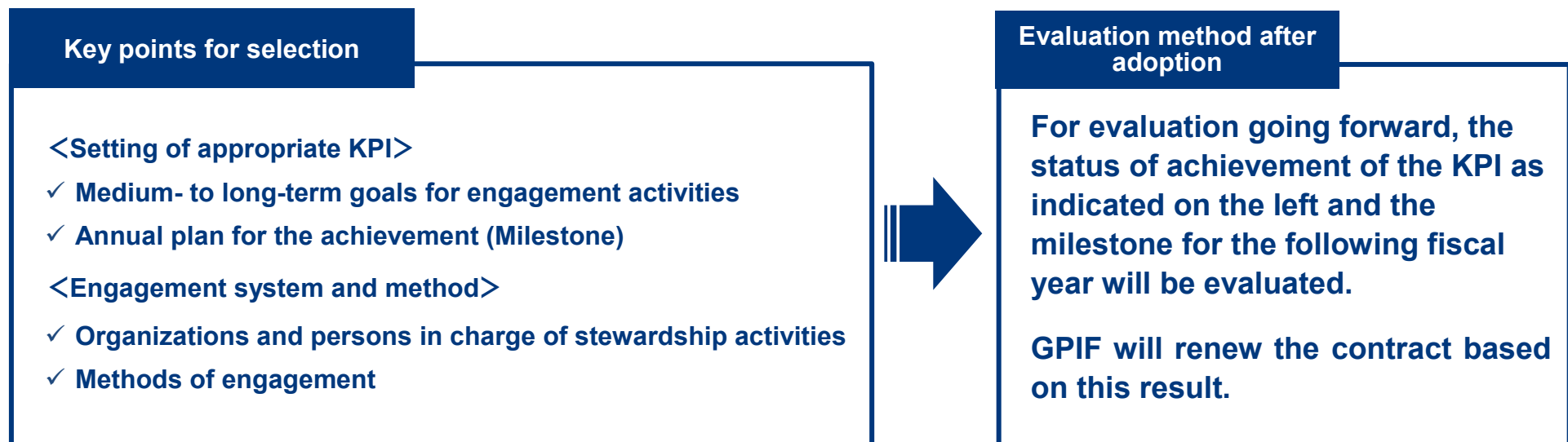
The chart shows if passive or active investors conducted engagement. When an asset manager is entrusted with both active and passive investments, it is counted as the one with larger amount of mandate entrusted by GPIF.

### 3. Passive Investment Models Focusing on Stewardship Activities

#### “Engagement-enhanced Passive”

##### (1) Overview and points for selection of passive investment models focusing on stewardship activities

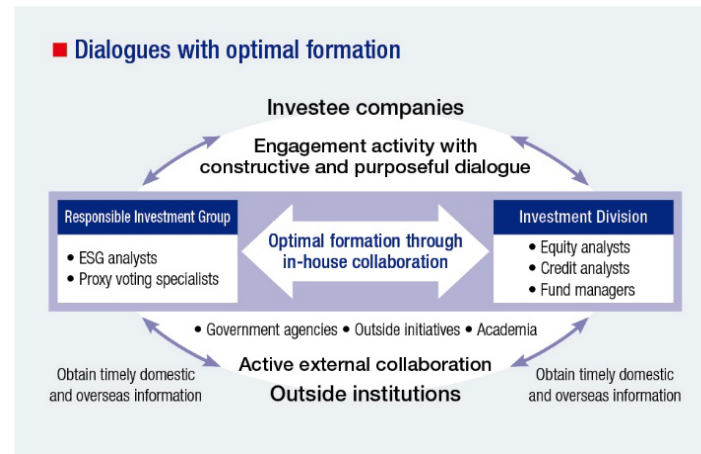
- With the aims of improving the overall market through stewardship activities, as well as diversifying and enhancing how to approach stewardship activities, GPIF started to adopt passive investment models focusing on stewardship activities from 2018.
- In the selection of the model, we review their investment process, stewardship policies, and the entire business model including organizational systems and fee levels in order to implement such process and policies.
- In 2018, we adopted Asset Management One and FIL Investments (Japan) as engagement-enhanced passive managers. In FY2021, following new applications from several asset managers, we newly adopted Sumitomo Mitsui Trust Asset Management Co., Ltd., and Resona Asset Management Co., Ltd.



## (2) Status of progress in asset managers: (i) Asset Management One

### <Companies subject to engagement activities and management of milestones>

- Establish 18 ESG issues, and clarify the direction of engagement by showing the Issues (locating problems), Goals (outcomes to be realized) and Action (company's initiatives). Implement engagement based on each issue at target companies.
- In the approaches to ESG, there are mainly two perspectives of "Return" and "Risk." The "Risk Perspective" is fundamental and more emphasis on the "Return Perspective".
- Establish 8-level milestones, and periodically report GPIF the progress of engagement from the establishment of issues to their solutions.

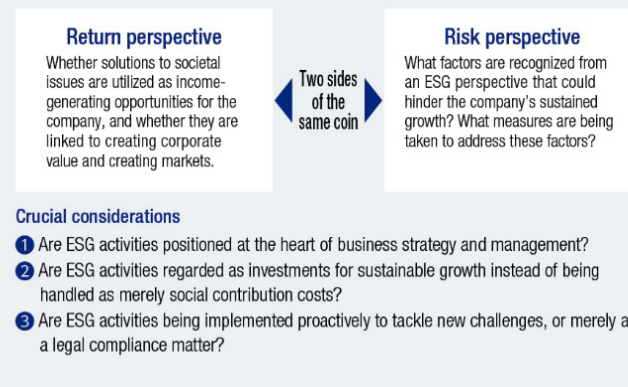


### 18 ESG Issues

### 8 Milestones



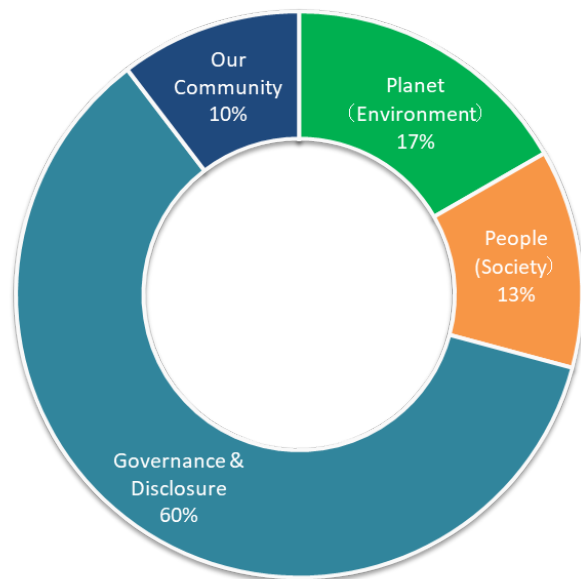
### ■ Risk return perspective and crucial considerations



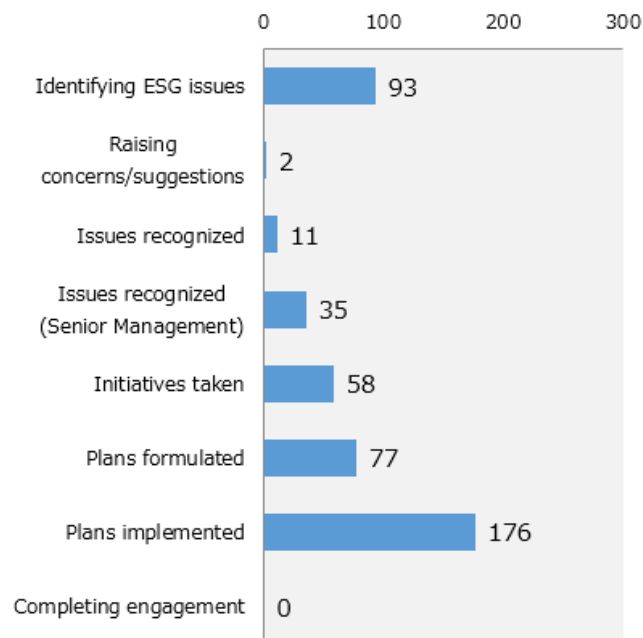
## <Status of progress>

- The number of issues subject to the management of milestones up to Q3 FY2022 was 452. The largest number among the ESG issues was in “Governance and Disclosure.”
- Up to 3Q FY2022, progress was observed in 63% of the engagement on schedule or ahead of schedule. By milestones, “1. Identifying ESG issues” decreased whereas “7. Plans implemented” and “8. Completing engagement” increased.
- Up to 3Q FY2022, 40 issues were completed.

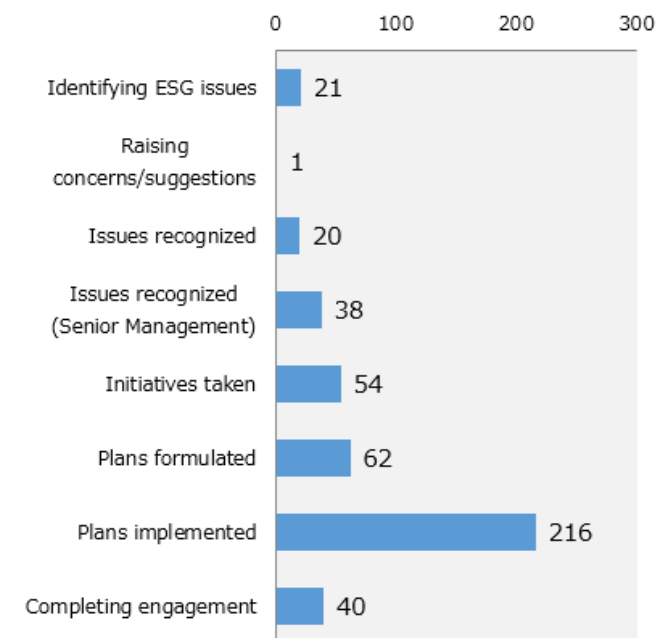
Composition of ESG issues for engagement



At the beginning of FY 2022+  
At the start of additional engagements during the period



At the end of Q3, FY2022



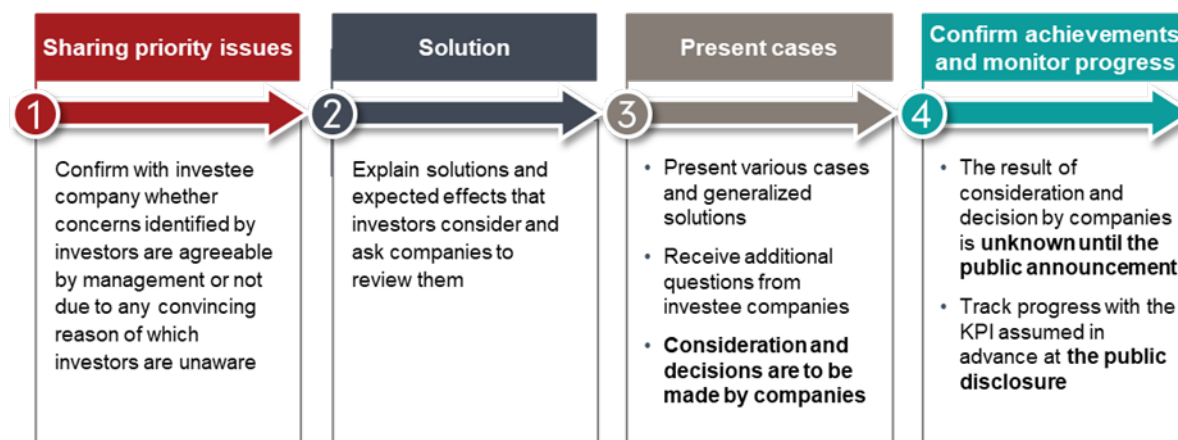
Source: The charts were taken from “Engagement Report” and “Sustainability Report 2022” of Asset Management One.

## (2) Status of progress in asset managers: (ii) FIL Investments (Japan)

### <Companies subject to engagement activities and management of milestones>

- 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.
- In 2021, FIL Investments (Japan) also verified the effects of engagement through an external organization from an academic standpoint.

#### Four Steps of Engagement



#### Engagement Counterpart



Source: "Four Steps of Engagement" and "Engagement Counterpart" are from Fidelity's Report on Investment Trusts.

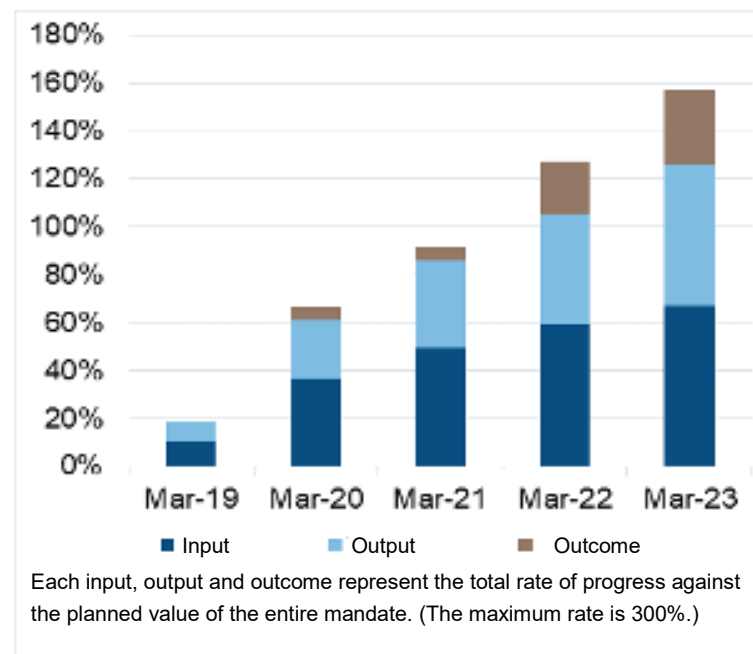
## <Status of progress>

- Progress was observed in almost all subject companies. As a result of dialogues with a wide range of internal and external parties including the upper management, officers and outside directors, we observed some kind of “output” (action taken by the company) in many companies. Following the continued engagement activities, some investee companies entered a phase of working toward the enhancement of profitability and growth, for example by autonomously reviewing their business portfolios, making them no longer subject to active engagement activities. These companies are being replaced with other companies with problems, in order to improve the overall performance of the index by expanding the scope of those subject to engagement activities.
- FIL Investments (Japan) established three indicators of ‘input’, ‘output’ and ‘outcome’\* in order to manage the progress of the engagement activities in the “engagement-enhanced passive investment,” granting points to each indicator according to the degrees of progress. Agenda and timeline vary depending on the subject company. The input indicator advanced to almost 70% of the overall plan thanks to the intensive dialogues to date. Through the cycle of monitoring inputs and outputs, evaluation and re-input, FIL Investments (Japan) will continue to endeavor to bring about an outcome. The accumulative status of progress is shown below.

\*Input: Sharing of awareness of issues based on evidence toward the improvement of corporate value, and requests for consideration concerning measures proposed by investors to solve such issues.

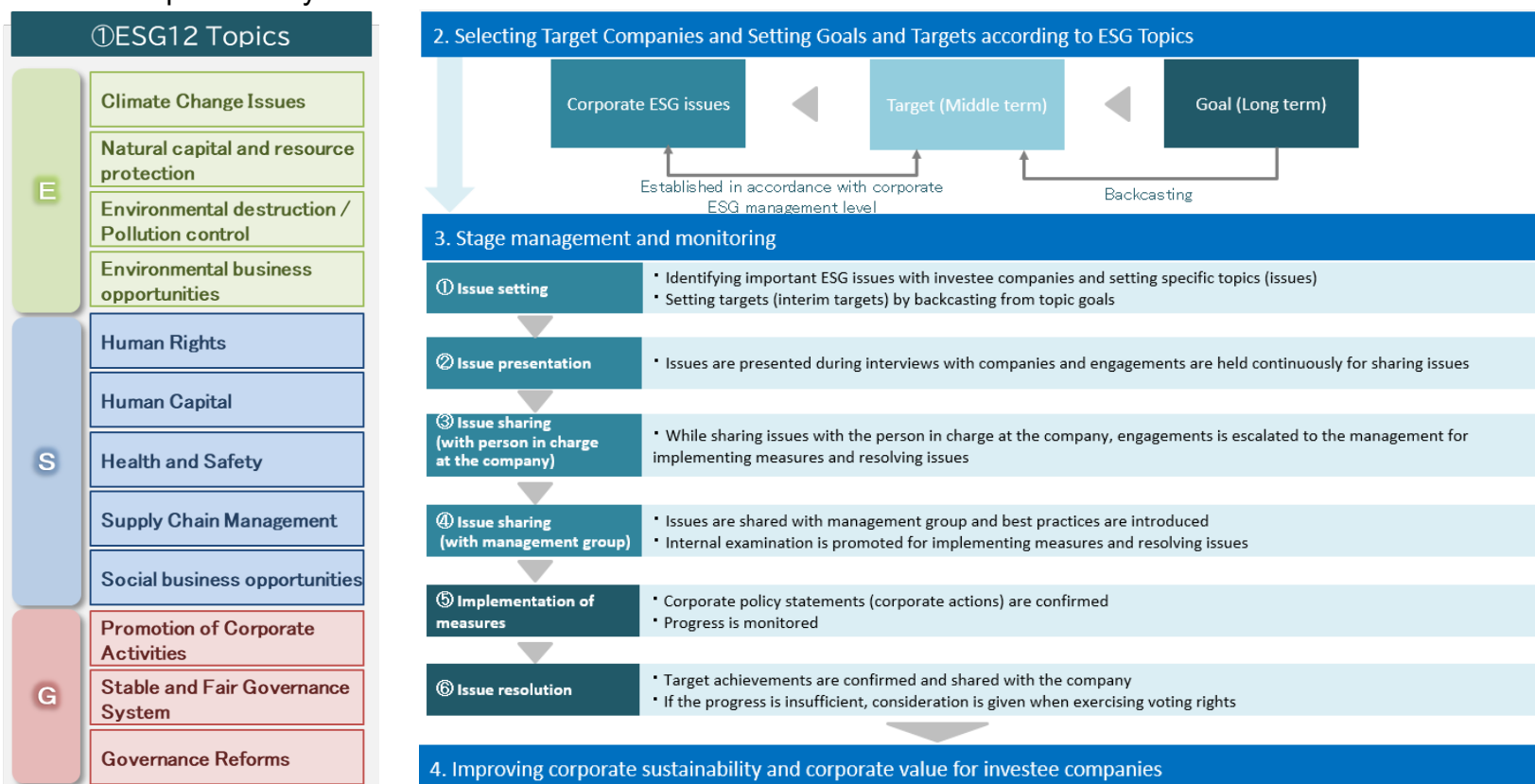
Output: Corporate activities, achievements

Outcome: Stock price performance, its components such as financial performance and the perception by the stock market (valuation, sell-side rating, etc.), and corporate activities strongly relating to these.



## (2) Status of progress in asset managers: (iii) Sumitomo Mitsui Trust Asset Management <Companies subject to engagement activities and management of milestones>

- Engagement is promoted through the commitment and active participation of the top management (Chairperson and President). Issues are set for “ESG 12 Theme” and 30 priority activity items selected based on ESG Materiality. Targets (medium-term goals) for each investee company are set by backcasting from the goals (long-term goals) for specific ESG Theme, and engagement is implemented with the aim of achieving the targets.
- In addition to engagement with investee companies, activities through various initiatives are carried out and engagement is implemented targeting a wide range of stakeholders including market participants in order to increase the probability of achieving such targets.
- By setting milestones in six stages, the status of progress in engagement activities from issue setting to the resolution of issues is reported to GPIF periodically.

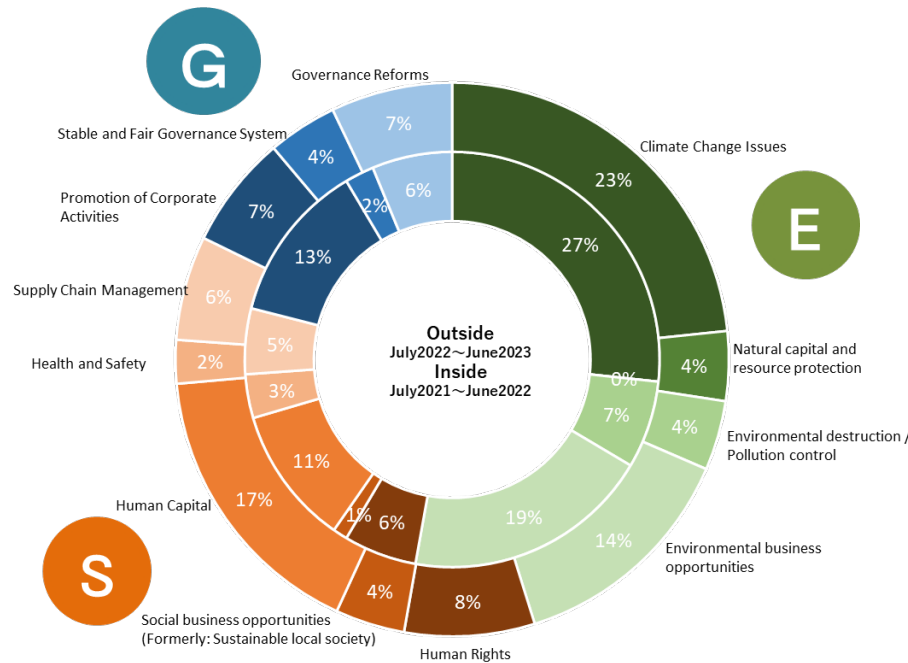




## <Status of progress>

- In 2022, the priority of engagement of “Natural capital and resource protection” and “Human rights and human capital” was raised in addition to “Climate change issues,” “Promotion of corporate activities” and “Governance reform.” Focusing on supply chains, the establishment of themes increased in “Natural capital and resource protection” strongly relating to climate change and “Human rights” in addition to climate change issues (Scope 3). Furthermore, the establishment of themes relating to “Human capital” increased for the improvement of efficiency of management strategy such as revisions of the human resources portfolio in line with the reform of the business portfolio. The activities were based on mutual relationships and consideration of simultaneous achievements.
- In the E (Environment) area in which high priority themes are included, many companies advanced to Step 4 (Sharing the awareness of issues with management team). Similarly, regarding issues of G (Governance), there are more companies that advanced to Step 5 (Implementation of measures) and Step 6 (Issue resolution). In the S (Society) area in which “Human rights and human capital” is included and the priority order was raised in this fiscal year, the companies that advanced to Step 3 (Sharing the awareness of issues with persons in charge) increased significantly.

Composition by top-down type engagement theme



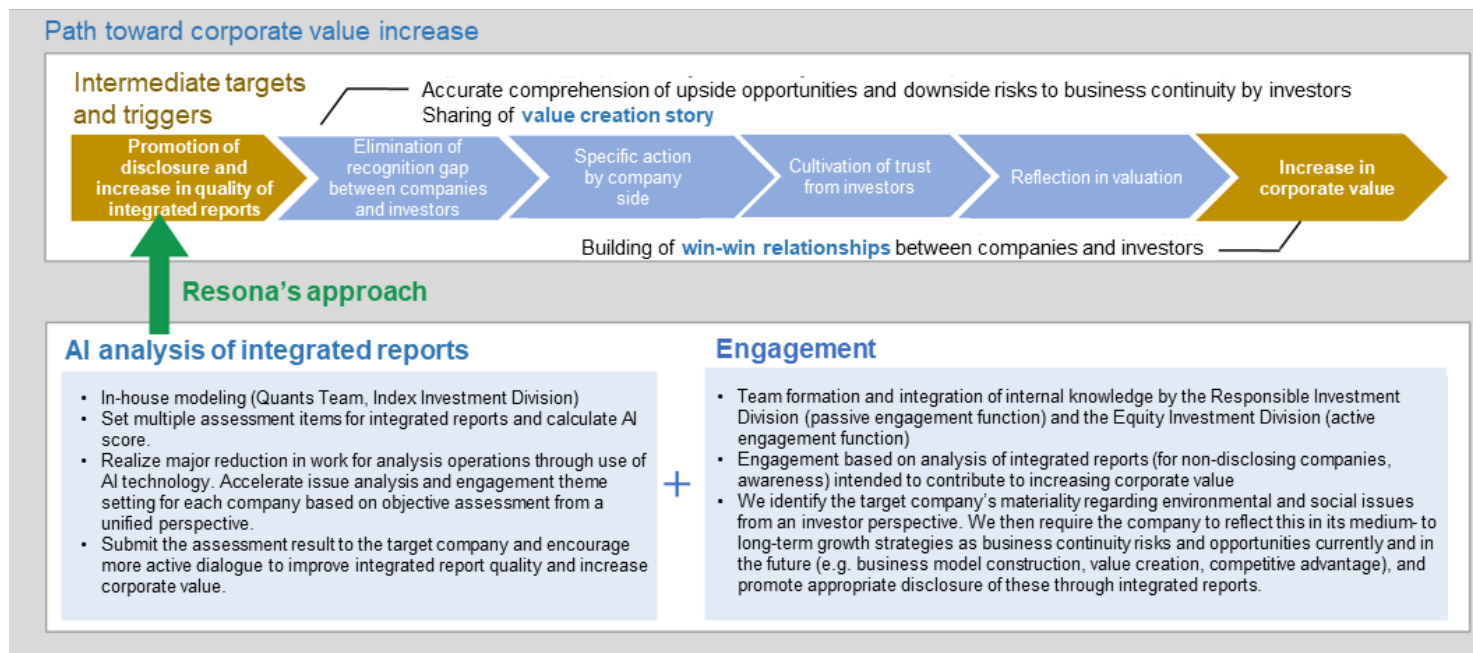
Status of progress for FY2022 (July 2022 to March 2023) (preliminary \*)



\*The figures of July 2022~June 2023 shows the engagement plan 「Sustainable local society」 changed to more inclusive 「Social business opportunities」

## (2) Status of progress in asset managers: (iv) Resona Asset Management <Companies subject to engagement activities and management of milestones>

- Engagement starts with an analysis of the current status of the integrated report. In the analysis of integrated reports using in-house AI technology, the focus points of integrated reports are set as evaluation items and scored in order to identify issues.
- Engagement managers provide feedback on AI evaluation scores and dialogue on the value creation story of the target company, and promote the improvement of corporate value triggered by the improvement of non-financial information disclosure (integrated report).
- Milestones aiming to improve corporate value are set for each target company, and both the progress of engagement activities from issue setting to issue solving and changes on the above-mentioned AI assessment score over time are regularly reported to GPIF.

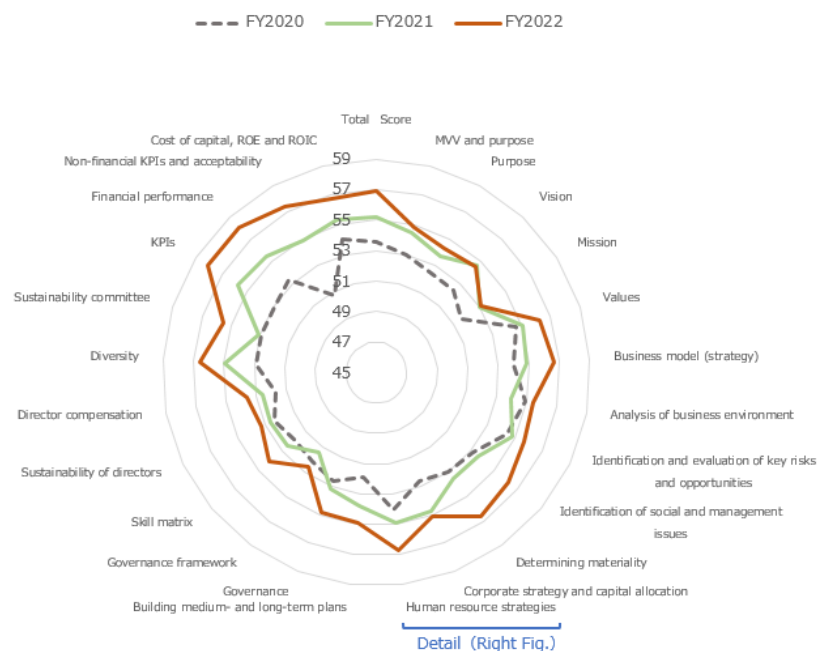


### <Status of progress>

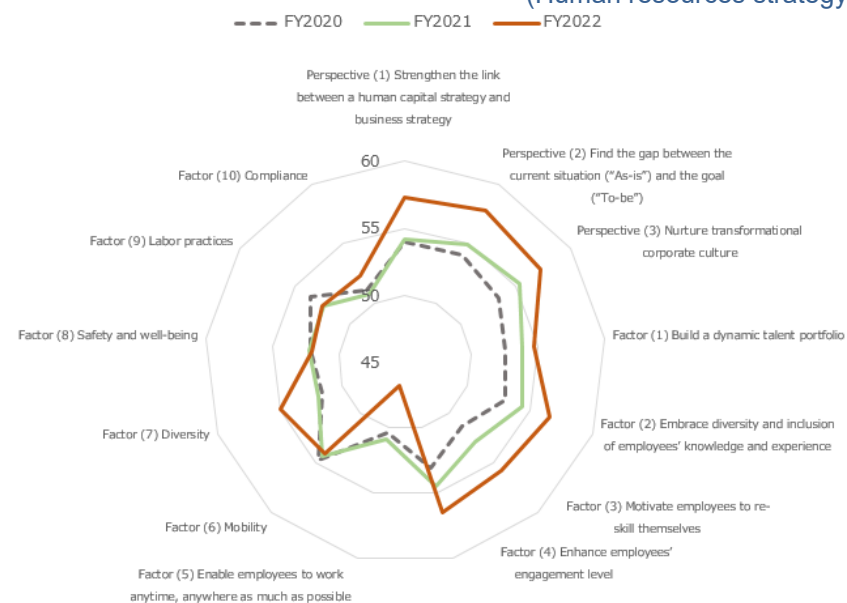
- From FY2023, the scope of AI analysis will be expanded to include the Securities Report in addition to the Integrated Report, thereby the TCFD-based disclosure and the human resources strategies will be quantified and scored.

- When engagement is held with a company, a document containing comments of the engagement manager attached to the quantified score will be provided for an exchange of opinions.
- Regarding subject companies' integrated reports, the improvement (of quality) of the content has advanced as a whole (meaning that the average value of the subject companies' AI scores has risen). In the "Consideration of Human Resources Strategy," the degree of improvement by advanced companies accounts for a significant portion, making the whole picture have a high score. The breakdown illustrated in the right chart below shows that the improvement has been made mainly based on the items referred to in the "Ito Report on Human Capital Management." In order to avoid deterioration of corporate value due to insufficient disclosure and to increase corporate value, continuous improvement and implementation of strategies disclosed in the integrated report are crucial. Therefore, we will further increase the depth of the relevant discussions.

Integrated Report AI Score of the Company Subject to Engagement (Overall)



Integrated Report AI Score of the Company Subject to Engagement (Human resources strategy)



\* The calculation of AI score is outlined in the paper "Method of calculating the disclosure score of climate change risks in the Securities Report" presented at the 2021 (the 56th) winter session of the Japanese Association of Financial Econometrics and Engineering (JAFEE).

Notes 1. The average value of AI scores of integrated reports of companies subject to engagement were calculated for the subject accounting periods of FY2020 (April 2019 to March 2020), FY2021 (April 2020 to March 2021) and FY2022 (April 2021 to March 2022).

2. To facilitate the time series comparison of AI scores, the deviation values of AI scores for the period from 2020 to 2022 were calculated based on the AI score in 2021 (the average value of all integrated reports is 50).

3. The AI scores of integrated reports calculated by Resona Asset Management based on the text information of corporate websites and EDINET. The AI scores of integrated reports as of January 2023 taken from 2020 to 2022 are averaged by item and graphed.

## 4. Critical ESG Issues

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

### < Active managers of domestic equities >

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

### < Passive managers of foreign equities >

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

### < Active managers of foreign equities >

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

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

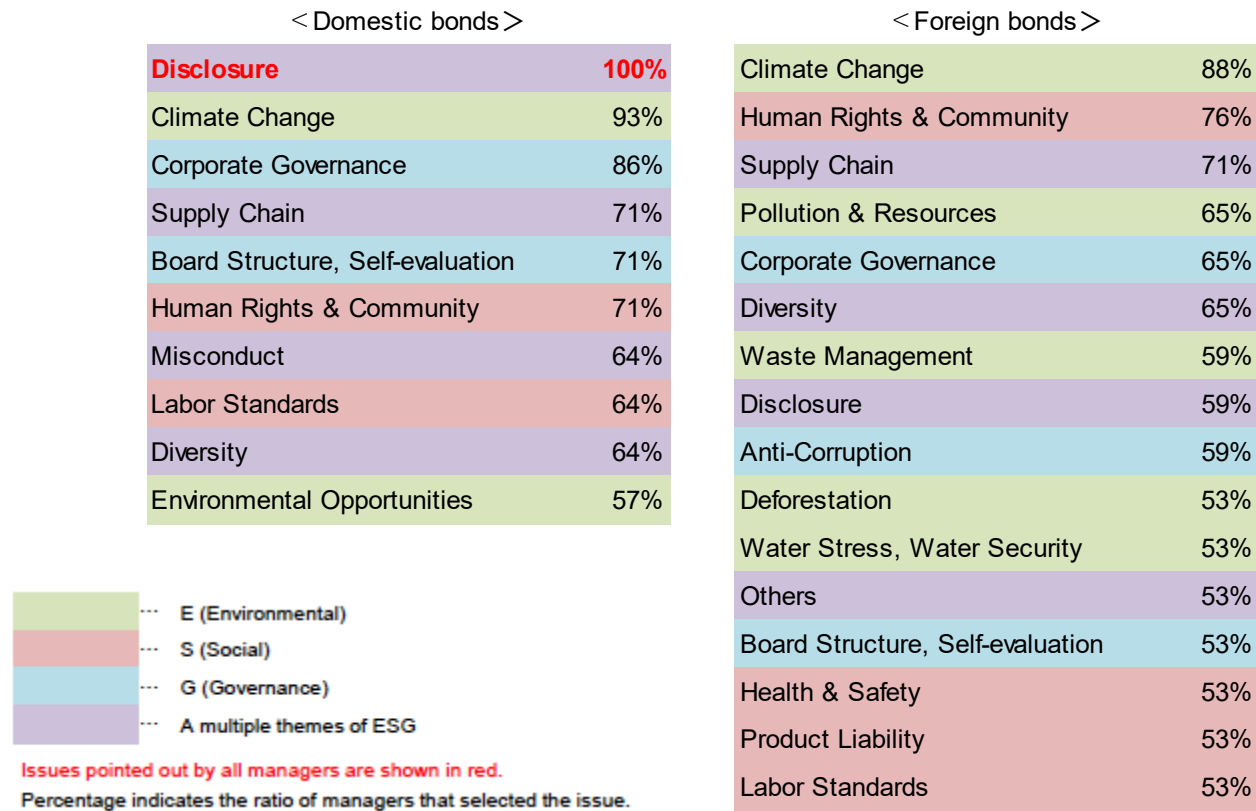
Issues pointed out by all managers are shown in red.  
 Percentage indicates the ratio of managers that selected the issue.

## 4. Critical ESG Issues (continued)

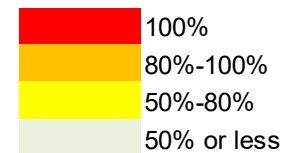
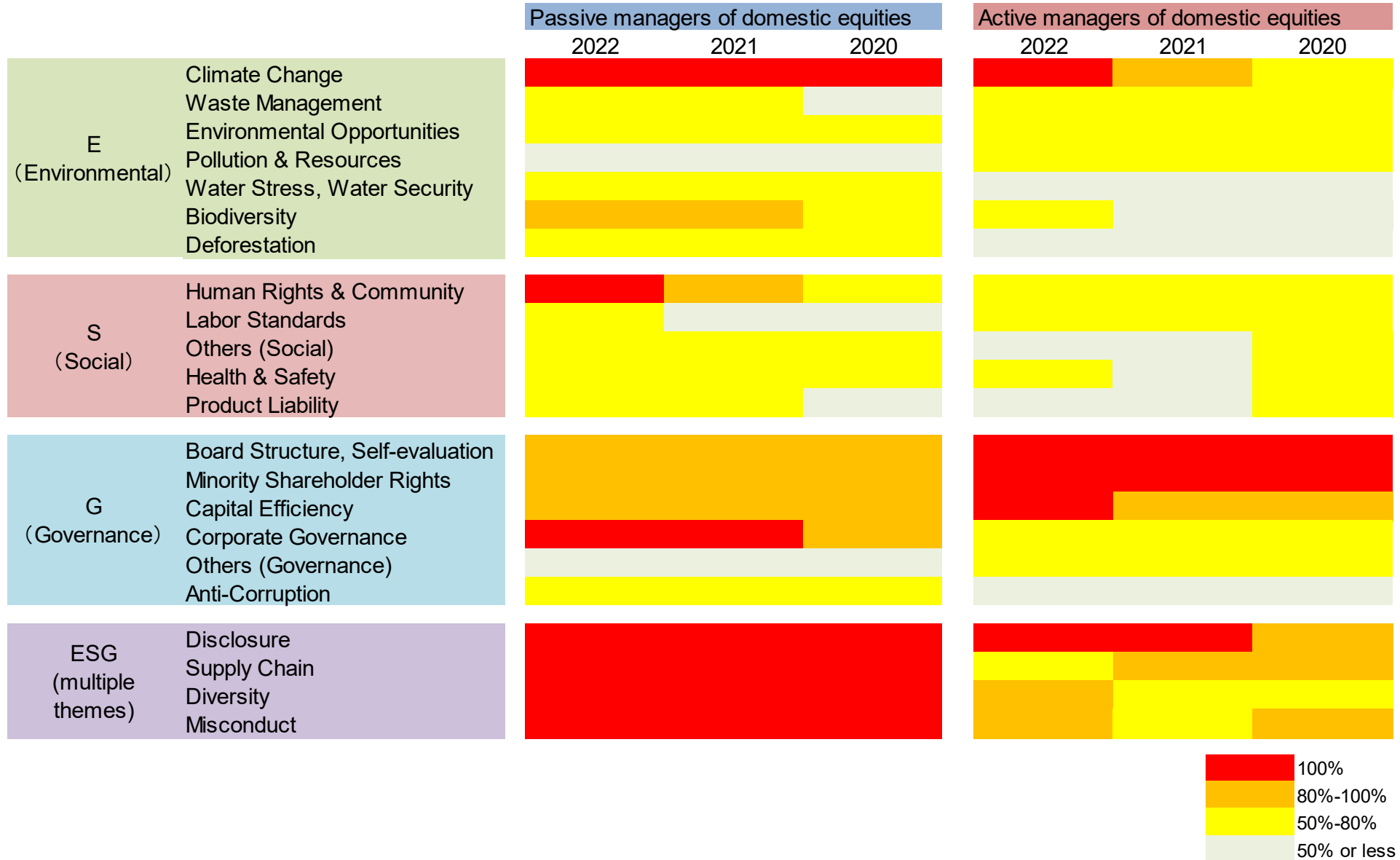
GPIF also asked asset managers entrusted for fixed-income about critical ESG issues considered from the viewpoint of corporate bond investors. The results are listed below.

“Critical ESG issues” pointed out by more than 50% of asset managers\* of each mandate 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.



## 4. Critical ESG Issues (Trend of domestic equities for the past three years)





# **Chapter 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**

### ■ Governance and conflicts of interest

- ✓ Enhance the governance.
- ✓ Formulate and review effective measures to prevent conflicts of interest

### ■ Integration of investment and stewardship/ ESG

- ✓ Collaborate between investment and stewardship activities
- ✓ Propose and establish models for passive investment focusing on stewardship activities
- ✓ Practice ESG integration tailored to different investment styles

### ■ Strengthening of engagement including exercise of voting rights

- ✓ Implement engagement activities based on new ESG issues that takes into account environmental changes and contribute to enhancing corporate value
- ✓ Promote engagement strategy in accordance with the stages of investee companies
- ✓ Integrate ESG issues and engagement on proxy voting principles
- ✓ Stewardship activities in fixed income investments

### ■ Messages and disclosure for investee companies

- ✓ 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 result 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
  - Confirming the governance systems of external asset managers
  - Conducting dialogues with each internal position from the top management to persons in charge, according to themes
  - Conducting dialogues with the third-party and other committees as required
  - Confirming new ESG issues that contribute to enhancing corporate value
  - Recognizing challenges relating to engagement subject companies and sharing their evaluation among the investment team and stewardship team
- ✓ **Establish passive investment models focusing on stewardship activities**
- ✓ **Take further consideration on the evaluation method of ESG integration**
- ✓ **Examine evaluation 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 (See next page.)**

## GPIF’s Action Plans Going Forward: Measurement of Effects of Stewardship Activities and ESG Investment

- GPIF believes that regarding stewardship activities and ESG, the longer the investment horizon is, the more the effect of improvement of returns after risk adjustments can be expected.
- Meanwhile, given that data have been accumulated as a corresponding period of time passed since the beginning of each initiative, we will conduct quantitative measurement of effects as follows from FY2023 to FY2024, collaborating with a consulting service provider that has expertise in statistical analysis, for the purpose of appropriately implementing Plan-Do-Check-Act (PDCA) cycles.

### ■Outline of the measurement of effects

	Project theme	Specific content (example)
<b>Measurement of the effects of stewardship activities</b>	Verification of the effects of engagement	Research into the causation between the engagement and ESG ratings/ improvement of corporate value
	Verification of the exercise of voting rights by external asset managers	Changes in how different when exercising voting rights for companies with which they have a potential conflict of interest and other investee companies
<b>Measurement of effects of ESG investment</b>	Verification of the effects of passive investment of equities based on ESG indices	Analysis of the impact of ESG investment on corporate behavior
	Study on ESG factors that contribute to the improvement of corporate value and investment returns	Research into the causation between the ESG factors and the improvement of corporate value/ investment returns

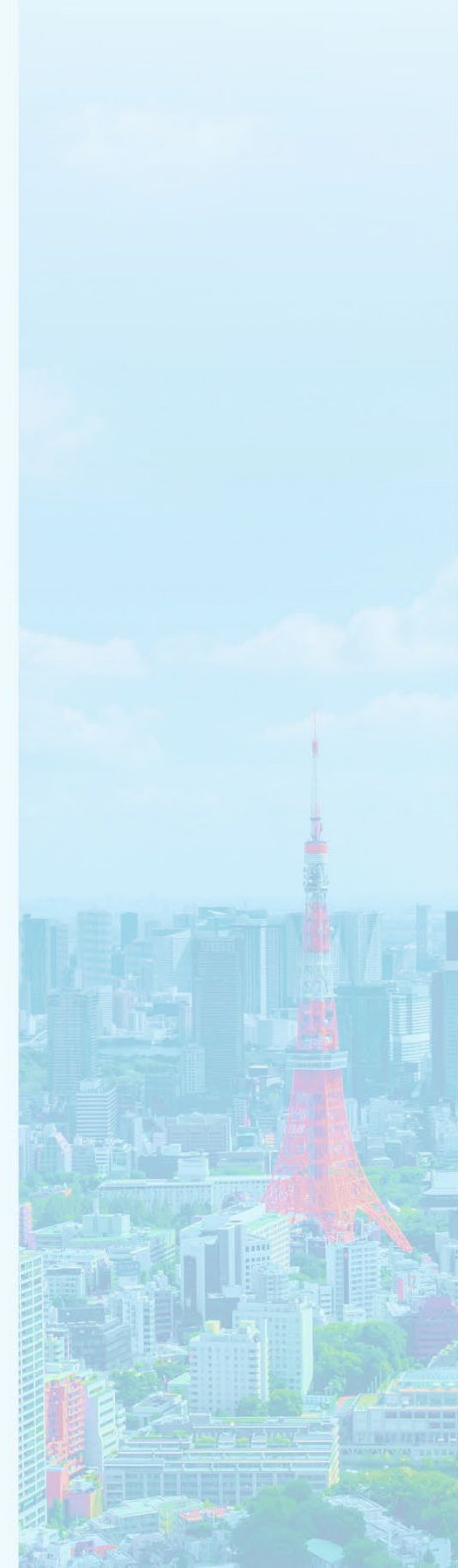
Note: The project themes and their implementation period are subject to change.

### ■Public notice

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



# **Status of Exercise of Shareholders' Voting Rights (April 2022 to June 2022)**





## 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 Statutory 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	120,694	48,687	9,253	6,334	305	4,872	819	584	450	9,708	127	328	16,767	405	0	232	164,544	
Management proposals	Total	120,349	48,546	9,191	6,299	305	4,810	819	584	450	9,538	0	328	14,959	405	0	196	161,934
		(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	106,711	42,782	8,206	5,344	305	4,599	696	80	355	9,301	0	321	14,747	23	0	161	145,505
		(88.7%)	(88.1%)	(89.3%)	(84.8%)	(100.0%)	(95.6%)	(85.0%)	(13.7%)	(78.9%)	(97.5%)	(0.0%)	(97.9%)	(98.6%)	(5.7%)	(0.0%)	(82.1%)	(89.9%)
	Opposed	13,638	5,764	985	955	0	211	123	504	95	237	0	7	212	382	0	35	16,429
		(11.3%)	(11.9%)	(10.7%)	(15.2%)	(0.0%)	(4.4%)	(15.0%)	(86.3%)	(21.1%)	(2.5%)	(0.0%)	(2.1%)	(1.4%)	(94.3%)	(0.0%)	(17.9%)	(10.1%)
Shareholder proposals	Total	345	141	62	35	0	62	0	0	0	170	127	0	1,808	0	0	36	2,610
		(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	5	2	16	15	0	7	0	0	0	33	22	0	175	0	0	4	262
		(1.4%)	(1.4%)	(25.8%)	(42.9%)	(0.0%)	(11.3%)	(0.0%)	(0.0%)	(0.0%)	(19.4%)	(17.3%)	(0.0%)	(9.7%)	(0.0%)	(0.0%)	(11.1%)	(10.0%)
	Opposed	340	139	46	20	0	55	0	0	0	137	105	0	1,633	0	0	32	2,348
		(98.6%)	(98.6%)	(74.2%)	(57.1%)	(0.0%)	(88.7%)	(0.0%)	(0.0%)	(0.0%)	(80.6%)	(82.7%)	(0.0%)	(90.3%)	(0.0%)	(0.0%)	(88.9%)	(90.0%)

### 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 nor abstentions.

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

## 2. Foreign Equities

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

All external asset managers (26 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	94,204	4,251	10,912	21,376	112	17	4,459	7,947	5,026	6,678	6,759	161	10,655	43,564	216,121	
Management proposals	Total	93,524	3,757	10,856	21,206	112	5	4,435	7,917	5,026	6,669	6,220	160	10,655	38,826	209,368
		(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	75,632	3,229	9,162	15,708	98	1	2,735	7,885	4,826	5,328	5,387	129	10,355	32,851	173,326
		(80.9%)	(85.9%)	(84.4%)	(74.1%)	(87.5%)	(20.0%)	(61.7%)	(99.6%)	(96.0%)	(79.9%)	(86.6%)	(80.6%)	(97.2%)	(84.6%)	(82.8%)
	Opposed	17,892	528	1,694	5,498	14	4	1,700	32	200	1,341	833	31	300	5,975	36,042
(19.1%)		(14.1%)	(15.6%)	(25.9%)	(12.5%)	(80.0%)	(38.3%)	(0.4%)	(4.0%)	(20.1%)	(13.4%)	(19.4%)	(2.8%)	(15.4%)	(17.2%)	
Shareholder proposals	Total	680	494	56	170	0	12	24	30	0	9	539	1	0	4,738	6,753
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	496	381	45	38	0	3	18	0	0	0	187	1	0	2,357	3,526
		(72.9%)	(77.1%)	(80.4%)	(22.4%)	(0.0%)	(25.0%)	(75.0%)	(0.0%)	(0.0%)	(0.0%)	(34.7%)	(100.0%)	(0.0%)	(49.7%)	(52.2%)
	Opposed	184	113	11	132	0	9	6	30	0	9	352	0	0	2,381	3,227
(27.1%)		(22.9%)	(19.6%)	(77.6%)	(0.0%)	(75.0%)	(25.0%)	(100.0%)	(0.0%)	(100.0%)	(65.3%)	(0.0%)	(0.0%)	(50.3%)	(47.8%)	

#### Notes:

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

\*\*"Opposed" figures include 3,392 abstentions.

### 3. 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

		FY2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Domestic equity	Opposition to the management proposals or abstention from voting	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	17,022	16,429
		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%	10.4%	10.1%
	Approval of shareholder proposals	37	42	47	34	58	34	56	55	65	167	129	215	319	154	262
		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%	8.9%	10.0%
Foreign equity	Opposition to the management proposals or abstention from voting	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	28,385	36,042
		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%	15.9%	17.2%
	Approval of shareholder proposals	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	2,772	3,526
		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%	53.9%	52.2%

## 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.





# Investment Principles

March 26, 2015  
Revised: October 2, 2017  
Last revised: April 1, 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.