Stewardship Activities Report 2018

Government Pension Investment Fund

February 2019

1. Stewardship & ESG Activities of GPIF

Investment Principles

1. Our overarching goal should be to achieve the investment returns required for the public pension system with minimal risks, solely for the benefit of pension recipients from a long-term perspective, thereby contributing to the stability of the system.
2. Our primary investment strategy should be diversification by asset class, region, and timeframe. While acknowledging fluctuations of market prices in the short term, we shall achieve investment returns in a more stable and efficient manner by taking full advantage of our long-term investment horizon. At the same time, we shall secure sufficient liquidity to pay pension benefits.
3. We formulate the policy asset mix and manage and control risks at the levels of the overall asset portfolio, each asset class, and each investment manager. We employ both passive and active investments to attain benchmark returns (i.e., average market returns) set for each asset class, while seeking untapped profitable investment opportunities.
4. By fulfilling our stewardship responsibilities (including the consideration of ESG (Environmental, Social, and Governance) factors), we shall continue to maximize medium- to long-term investment returns for the benefit of pension recipients.

https://www.gpif.go.jp/en/about/pdf/investment_principles.pdf

Concepts on Stewardship Responsibilities
- Excerpts from the Policy to Fulfill Stewardship Responsibilities -

• The Government Pension Investment Fund (GPIF) is a universal owner, an investor with a very large fund size and a widely diversified portfolio across the overall capital market, and a super long-term investor designed as a part of 100 years sustainable pension scheme. Given such features, the sustainable and stable growth of the overall capital market is essential for GPIF to secure its long-term investment returns.

• As GPIF invests in equities and exercises voting rights through its external asset managers (asset managers), it promotes constructive dialogue (engagement) between asset managers and investee companies. GPIF will thus fulfill stewardship responsibilities by promoting engagement between asset managers and investee companies, and building a win-win relationship in the investment chain. In this chain, a medium- to long-term improvement in corporate value will lead to growth of the overall Japanese economy, which will eventually enhance investment returns.

• GPIF is committed to accomplishing its mission, which is to maximize medium- to long-term investment return for the beneficiary through various activities, fulfilling stewardship responsibilities and contributing to stable operation of the pension system. The mission takes into account issues related to environmental, social and governance (ESG) factors. Taking into consideration ESG issues will increase the risk-adjusted return by reducing risks, and GPIF believes that the longer the investment horizon is, the greater the risk-reduction effect becomes.

• As an “asset owner” defined by Japan’s Stewardship Code (the Code), GPIF is directly engaged in initiatives that it can execute on its own as stated in (2) below. Meanwhile, for investment activities to be conducted by asset managers, as stated in (3) below, GPIF understands the state of their implementation, conducts appropriate oversight, proactively has dialogue (engagement) with asset managers, and publishes the “Report of the GPIF’s Stewardship Activities” for each fiscal year, fulfilling its stewardship responsibilities.

Stewardship Principles and Proxy Voting Principles

Stewardship Principles

GPIF requires its external asset managers (“asset managers”) for domestic and foreign equity investments to comply with the following principles. If an asset manager should decide not to comply with any of the principles, it is required to explain the rationale for the non-compliance to GPIF.

In order to fulfill its own stewardship responsibilities, GPIF continuously monitors the stewardship activities of asset managers, including the exercise of voting rights, and proactively conducts dialogue (engagement) with them.

(1) Corporate Governance Structure of Asset Managers

(2) Management of Conflicts of Interest by Asset Managers

(3) Policy for Stewardship Activities, including Engagement

(4) ESG Integration into the Investment Process

(5) Exercise of Voting Rights

Proxy Voting Principles

[Exercise of voting rights]

- Asset managers should develop and publicly disclose a proxy voting policy and guidelines to maximize shareholders’ long-term interests.
- Asset managers should sufficiently communicate with investee companies.
- Asset managers should give careful consideration to ESG issues.
- Asset managers should apply careful due diligence when exercising voting rights on proposals that could undermine minority shareholders’ interests.
- Asset managers should exercise voting rights in accordance with Corporate Governance Codes established by individual countries.
- Special notes for cases where asset managers use a proxy advisory service to exercise voting rights.

[After shareholders’ meetings]

- Asset managers should publicly disclose all voting records by proposals at each investee company.
- Asset managers should explain to investee companies or publicly disclose the voting records and rationale, depending upon the importance and relevance.
- Asset managers should periodically review their voting records and process.

https://www.gpif.go.jp/en/investment/pdf/stewardship_principles_and_proxy_voting_principles.pdf

Stewardship & ESG Activities

May 2014	Announced the acceptance of Japan's Stewardship Code and published "Policy to Fulfill Stewardship Responsibilities"
Mar. 2015	Announced "Investment Principles"
Sep. 2015	Signed "Principles for Responsible Investment (PRI)"
July 2016	Announced the establishment of "Business and Asset Owner's Forum" and "Global Asset Owners' Forum"
June 2017	Announced "Stewardship Principles" and "Proxy Voting Principles"
Aug. 2017	Updated "Policy to Fulfill Stewardship Responsibilities" in accordance with the revised Japan's Stewardship Code
Oct. 2017	Revised "Investment Principles" (Expand stewardship and ESG activities to all asset classes)
Jan. 2018	Published "Excellent & Most-improved Integrated Reports" selected by GPIF's external asset managers entrusted with domestic equity investment
Feb. 2018	Published "GPIF's Stewardship Activities Report in 2017"
Apr. 2018	Published "Report of the 3rd Survey of Listed Companies Regarding Institutional Investors' Stewardship Activities"
Apr. 2018	Convened the 4th meeting of Business and Asset Owners' Forum
Apr. 2018	Published a joint research report with the World Bank Group concerning ESG integration into fixed income investment
Aug. 2018	Published "ESG Report"
Sep. 2018	Selected Global Environmental Stock Indices
Oct. 2018	Joined Climate Action 100+
Oct. 2018	Convened the 5th meeting of Business and Asset Owners' Forum
Oct. 2018	Convened the 4th meeting of Global Asset Owners' Forum
Dec. 2018	Supported to the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations

GPIF's Priorities to Fulfill Stewardship Responsibilities

Belief

Long-term investment returns should be increased by enhancing "Sustainable Corporate Value" and "Capital Market Efficiency"

Priorities to fulfill stewardship responsibilities

- **Build a win-win environment in the investment chain**
- **Demand external asset managers to fulfill stewardship responsibilities and improve their own governance**
- **ESG integration in the investment process**

Foundation of stewardship activities

- **Investment Principles** (page 3)
- **Policy to Fulfill Stewardship Responsibilities** (see page 4 for an excerpt, and page 39 for Basic Policies)
- **Stewardship Principles**
- **Proxy Voting Principles** (see page 5 for the overview, and pages 40 and 41 for all text)

In accordance with the Investment Principles and the Policy to Fulfill Stewardship Responsibilities, GPIF, as an asset owner, fulfills its stewardship responsibilities and demands external asset managers to comply with the Stewardship Principles and the Proxy Voting Principles

Measures to enhance long-term alignment with external asset managers

- Introduction of new performance-based fee structures and multi-year contracts (page 8)
- Survey on the compensation schemes for executives and employees (an incentive structure) of external asset managers (page 9)

Enhancement of stewardship activities in passive investment

- Appointment of passive managers with new business models (page 10)

Reinforcement of engagement with relevant organizations

- Engagement with, and assessment of, external asset managers (pages 11 to 13)
- Engagement with index providers (page 14)

Initiatives for promoting dialogues between asset managers and investee companies

- Survey of the companies listed on the 1st Section of the Tokyo Stock Exchange (page 15)
- "Business and Asset Owners' Forum" (page 15)
- "Excellent & Most–improved Integrated Reports" selected by GPIF's external asset managers entrusted with domestic equity investment (page 16)
- "Excellent Corporate Governance Reports" selected by GPIF's external asset managers entrusted with domestic equity investment (page 17)

Promotion of ESG activities

- Critical ESG Issues listed by asset managers (page 18)
- ESG integration (page 18)

Participating in global initiatives and strengthened collaboration with stakeholders and relevant organizations

- Support to the TCFD recommendations and participating in the Climate Action 100+ (page 19)
- Status of joining initiatives (page 20)
- Strengthened collaboration with stakeholders and relevant organizations (pages 21 to 22)

Measures to Enhance Long-term Alignment with External Asset Managers

Introduction of new performance-based fee structure

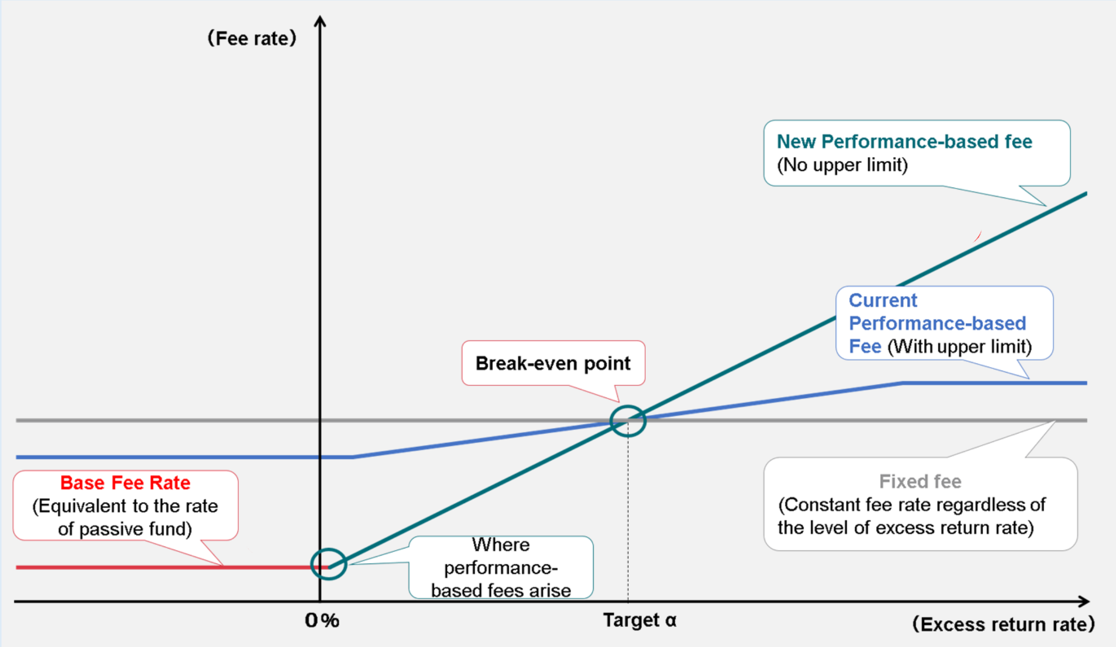
<Characteristics of the new performance-based fee structure in active investment>

(1) With the aim of enhancing alignment between GPIF and external asset managers, the base fee rate is lowered to the rate of passive fund, whereas the maximum fee rate is scrapped.

(2) A portion of the fees is carried over to level the fluctuation of the excess return ratio in order to ensure that the amount of fees is linked with medium- to long-term performance.

<Background of the introduction>

- GPIF entrusts approximately 20% of all assets are actively managed by the asset managers, expecting them to achieve returns surpassing the market average return from a long-term perspective. However, only a few asset managers achieved their target excess return rate in the past three years.
- The above result may be attributable to the following causes: (1) Under the current fixed fee structure and partial performance-based fee structure, the alignment between GPIF and active managers may be insufficient; and (2) Our evaluation period is shorter than the investment cycle to achieve the excess return, which means that the commitment to active managers may be insufficient. Based on the above problems, we have introduced the performance-based fee structure.



Introduction of multi-year contracts

- In order to introduce the performance-based fee structure, in principle, a multi-year contracts (commitments) with external asset managers is concluded to enable to achieve medium- to long-term goals.
- GPIF expects that introducing a performance-based fee structure and multi-year contracts could ensure to achieve stable excess return from active investment.

Measures to Enhance Long-term Alignment with External Asset Managers

■ Survey on the compensation schemes for executives and employees (an incentive structure) of external asset managers

<Purpose of the survey>

GPIF attaches importance to the alignment of interest with external asset managers. This survey aims at examining the alignment between asset managers and GPIF from the viewpoint of compensation—specifically focusing on the following two points that were stated in the Stewardship Activity Report 2017.

(1) Whether the compensation scheme for executives and employees at external asset managers is designed to contribute to the improvement of long-term returns as expected by long-term asset owners such as GPIF;
(2) Whether the incentive scheme is not designed for fomenting short-termism.

<Subject of the survey>
External asset managers entrusted with domestic and foreign equity and fixed income investment

<Methodology>

− Commissioned a human resources consulting company. Questionnaire was sent to GPIF's external asset managers to confirm their compensation scheme. As part of follow-up measures, interviews with individual asset managers were conducted. At the interview, the concept, policy and systems of compensation were directly asked to the executives of asset managers including the CEO, CIO, Director in charge of human resources, etc.

<Going forward>

−GPIF has already entered into multi-year contracts with some active managers, and considers that a suitable compensation scheme is one of the effective measures to secure alignment in seeking long term-oriented partnerships with asset managers. Therefore, the results of the survey will be utilized for selecting and evaluating asset managers.

−The compensation schemes are considered to reflect their investment philosophy as well as their shared value and beliefs such as corporate culture of each asset manager. It is also one of the engagement themes in corporate governance. We will utilize the results of the survey for engagement with asset managers, seeking the best practice including transparency.

Enhancement of Stewardship Activities in Passive Investment

Appointment of passive managers with new business models

- In March 2017, GPIF started to call for the application of passive managers for domestic equities, for the purpose of reinforcing stewardship activities. GPIF expects it would contribute to improving the sustainability of the whole markets through such activities and diversifying the way to approach the stewardship activities.
- In selecting the asset managers, GPIF reviewed their investment process and stewardship principles, as well as the entire business model including organizational systems and fee levels in order to implement such process and principles.
- In response to GPIF's call for "Proposals for business models for "new passive investment" to reflect GPIF's Stewardship Principles" stated in "Expectations & Challenges for External Asset Managers" under the GPIF's Stewardship Activities Report 2017, new and existing asset managers formulated proposals. After reviews, GPIF appointed several asset managers.

Key points for selection

<Setting of appropriate KPI>

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

<Engagement system and method>

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

Evaluation method after selection

The status of achievement of the KPI and the milestones for the following fiscal year will be evaluated.

GPIF will renew the contract based on this result.

<Details of the proposals>

- ◆ Establish 19 ESG themes, and clarify the direction of engagement by showing the Challenges (locating problems), Goals (building models to be realized) and Action (company's activities). Implement engagement based on each theme at target companies.
- ◆ With the expertise of analysts of active investment, efficiently increase β 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.

Reinforcement of Engagement with Relevant Organizations

Engagement with external asset managers

- Regarding communication with external asset managers, GPIF has shifted from one-way annual monitoring model to "engagement" model, focusing two-way communication and exchanging views on stewardship responsibilities, as stated in the "Summary Report of GPIF's Stewardship Activities in 2016."
- Accordingly, GPIF has called meetings and conducted surveys on particular themes or as required, in a form of stewardship meetings and such, in addition to holding an annual assessment meeting.
- Many asset managers expressed that while the number of these surveys has increased, the volume of standard materials required for the assessment meetings is unchanged, and the preparation is burdensome. Thus, GPIF has revised materials thoroughly and reduced the items used for the stewardship meetings significantly. We also found a number of duplicated questions in the investment reports, so that we revised them and reduced stewardship-related items.
- In addition to individual meetings, we conducted briefings for external asset managers to expound the GPIF's new policies and significant amendments, providing sufficient explanation on our viewpoints, including the context and outlook. We encourage two-way communication to promote the exchange of opinions and to give feedback by Q&A sessions and follow-up surveys.
- In 2018, GPIF conducted individual engagements several times and had a meeting with asset managers as follows, due to our extremely significant changes for active managers including the introduction of new performance-based fee structure as well as multi-year contracts.

<Meeting with external asset managers (August 2018) >

・In the meeting with the management, including the top executives of asset managers, we exchanged views on manager registration systems, the performance-based fee structure, evaluation methods, business models of passive managers for domestic investment, stewardship activities, the use of AI, and other topics.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers (Cont'd)

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

In the Proxy Voting Principles, GPIF asks its external asset managers to publicly disclose proxy voting records for each investee company. The following are asset managers for domestic equities who have already disclosed them publicly. It should be noted, however, that 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)]

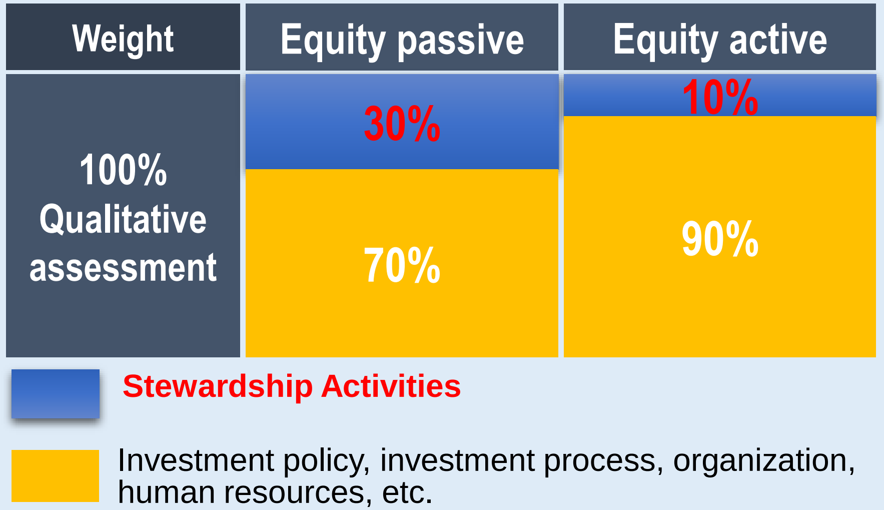
- ✓ Asset Management One
  http://www.am-one.co.jp/company/voting/
- ✓ Eastspring Investments
  (Eastspring Investments (Singapore) Limited)
  https://www.eastspring.co.jp/about-us/stewardship-code
- ✓ Invesco Asset Management (Japan)
  http://www.invesco.co.jp/footer/proxy.html
- ✓ Capital International (Capital International, Inc.)
  https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html
- ✓ Goldman Sachs Asset Management
  (Goldman Sachs Asset Management, L.P., etc.)
  https://www.gsam.com/content/gsam/jpn/ja/gsitm/about-gsam/stewardship-code.html
- ✓ JPMorgan Asset Management (Japan)
  https://www.jpmorganasset.co.jp/wps/portal/Policy/Guideline
- ✓ Schroders Investment Management (Japan)
  http://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/
- ✓ Daiwa SB Investments
  http://www.daiwasbi.co.jp/company/guideline/index.html
- ✓ Nikko Asset Management
  http://www.nikkoam.com/about/vote/results
- ✓ Nomura Asset Management
  http://www.nomura-am.co.jp/corporate/service/responsibility_investment/vote.html
- ✓ Nomura Asset Management (Dimensional Fund Advisors LP)
  http://us.dimensional.com/about-us/corporate-governance
- ✓ FIL Investments (Japan)
  http://www.fidelity.co.jp/fij/about/governance/voting.html
- ✓ BlackRock Japan
  https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting
- ✓ Sumitomo Mitsui Trust Bank
  http://www.smtb.jp/business/instrument/voting/voting_right.html
- ✓ Mitsubishi UFJ Trust and Banking
  https://www.tr.mufg.jp/houjin/jutaku/about_stewardship.html
- ✓ Russel Investments Japan
  (Russell Investments Implementation Services, LLC.)
  https://russellinvestments.com/jp/legal/proxy
- ✓ Resona Bank, Limited.
  https://www.resonabank.co.jp/nenkin/sisan/giketu/index.html

Note: Names in parentheses indicate subcontractors.
URLs are based on information as of January 31, 2019.

Reinforcement of Engagement with Relevant Organizations

Assessment of “Stewardship Activities”

- The comprehensive assessment of asset managers is conducted through qualitative assessment, while taking into consideration of quantitative achievements.
- Approximately 90% of GPIF’s equity is passively managed, and GPIF invests in a wide rage of listed companies. For the improvement of returns for GPIF, sustainability of the entire market is crucial. Therefore, GPIF believes that it is critical for passive managers to implement engagement activities, which would encourage investee companies to increase corporate value and sustainable growth from the medium- to long-term perspective in terms.
- In Japan’s Stewardship Code revised in May 2017, the importance of dialogue in passive investment was clarified. For monitoring investee companies, business risks and opportunities arising from ESG factors were included as factors in addition to governance. Also the possibility of collaborative engagement was referred to as a means of dialogue. This revision made it clear that expectations for Stewardship activities, particularly in passive investment, are increasing. GPIF highly evaluates asset managers who fulfill stewardship responsibilities better if the preconditions are similar.



- With respect to Stewardship activities, the passive managers were assessed in terms of their contribution to the sustainability of the whole market, whereas the active managers were assessed in terms of their contribution to increasing shareholder value of the investee companies in the long-term.
- Specifically, we focused on the following points, and exchanged opinions on how they worked on stewardship activities. We also referred to information obtained from external providers.

✓ Frameworks (organizations, management of conflicts of interest)
✓ Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)
✓ Stewardship activities (policy, current actions, implementation of engagement)
✓ ESG activities including responses to their critical ESG issues
✓ Exercise of voting rights (topics, cases where judgments were divided among external asset managers, process of judgments on exercising shareholder proposals, etc.)
✓ Responses to the GPIF’s Stewardship Principles and Proxy Voting Principles in disclosing the details of proxy voting records, etc.

－In cases we acknowledge concerns about governance of external asset managers, such as conflicts of interest, through reports and interviews, GPIF communicates its concerns and engages in various opportunities, aiming to alleviate such concerns.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with index providers

- GPIF recognizes that index providers are extremely important organizations as a subject of engagement.
- GPIF points up index providers for the following two reasons:

  (1) Approximately 75% of the GPIF’s asset is passively managed. Since stocks included in the benchmark indices are held in passive investment by the rule of the index, it is substantially true that the index providers decide both the selection of stocks and their weights held in the passive investment. In other words, it is index providers that have the largest impact on the GPIF’s portfolio. “Indices” and “index providers” also come to have a greater impact on capital markets, indicating the increasing weight of passive investment among investors in general.

  (2) Moreover, GPIF has commenced with passive investment tracking ESG indices in 2017, which have more room for ESG rating agencies and index providers to demonstrate their judgment when selecting stocks to be included in indices, unlike traditional capitalization weighted equity indices such as TOPIX.

- GPIF believes that the governance of index providers is essential for ensuring neutrality and transparency in selecting and evaluating stocks to be included in indices. Consequently, we focused on it when selecting ESG indices.
- While we enhance engagement with index providers, there has been a positive movement among some index providers in the form of conducting active “consultations” with investors. This consultation aims at obtaining investors’ opinions prior to revising rules concerning the construction of indices and ESG evaluation.
- GPIF has high regard for the implementation of “consultations”, and actively participates in discussions on specific themes. We also request-external asset managers to do the same, and to share the discussion points with us.
- On the other hand, GPIF raises questions with regard to the actual decision-making processes of consultations due to insufficient disclosure on how to select interview subjects (institutional investors), who and how many subjects are interviewed, and results of the consultations, as well as the decision-making process including how these discussion is deployed on their final decisions, etc.
- Considering such impact, GPIF believes that the more transparency they have, the stronger confidence we can have in indices and index providers. Accordingly, GPIF will more focus on engagement with index providers.

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 its first survey of the JPX-Nikkei Index 400 companies in January 2016 with the aim of assessing the stewardship activities of external asset managers and grasping the actual conditions of “constructive dialogue” (engagement). From the third survey conducted in 2018, the target was expanded to companies listed on the TSE’s first section with the aim of gaining direct feedback from a wide range of companies. In January 2019, the fourth survey was conducted.

－In the third survey in January 2018, 619 companies, accounting for 30.2%, responded to the survey. In this survey, we asked the following questions:

(1) Evaluation concerning stewardship activities of GPIF’s asset managers; (2) Actual status concerning “constructive dialogue” (engagement); (3) Changes following the revision to the Stewardship Code in May 2017; (4) IR and ESG activities of investee companies; and (5) GPIF’s Initiatives.

The results of the survey are available here: https://www.gpif.go.jp/en/investment/pdf/summary_report_of_the_3rd_survey.pdf

Businesses and Asset Owners’ Forum

- The forum was established based on a proposal for the formation of a “platform for continuous and constructive dialogue between GPIF, as an asset owner, and companies, “ which we received from several companies including OMRON Corporation, Eisai Co., Ltd., and Nissan Motor Co., Ltd.” The first forum was held in September 2016.

- 10 companies in total, including three lead organizer companies and five asset owners, attended.

[Participating companies]

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

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

[Asset owners]

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

－ At the fourth forum in April 2018, discussions were focused on the validity of the corporate assessment conducted by ESG rating agencies including index providers, disclosure of ESG information such as integrated reports, ESG activities based on dialogue with investors, etc. In October 2018, the fifth forum was held, in which discussions were focused on measures to enhance ESG activities (such as organizational reforms and promotion of dialogue) and quarterly accounting.

－ An outline of the discussions is available here: https://www.gpif.go.jp/en/investment/business-asset-owner-forum.html

－ Feedback was provided to the GPIF’s external asset managers and overseas asset managers.

Initiatives for Promoting Dialogues between Asset Managers and Investee Companies

■ Excellent integrated reports and most-improved integrated reports selected by GPIF's external asset managers entrusted with domestic equity investment

- GPIF considers integrated reports to be important tools of constructive dialogue for improving corporate value, and believes they are instrumental for interactive engagement between external asset managers and investee companies.
- Therefore, GPIF has requested external asset managers for domestic equities to nominate companies that have created excellent integrated reports since 2016, with the aim of encouraging companies to start creating or enhancing integrated reports and encouraging investors to utilize them. For the third year, GPIF requested asset managers to nominate up to 10 "excellent integrated reports" and 10 "most-improved integrated reports" in December 2018. GPIF compiled the results and announced them in January 2019.
- We received positive feedback from companies, such as "the management became to pay more attention to the integrated reports," "more active collaboration among relevant staff and departments has occurred," "The awareness of the integrated reports within the company has increased," "We observed PR effects through company website and social media," "It helps us to prepare our integrated reports," to name a few.

○Excellent integrated reports

GPIF's 17 external asset managers for domestic equities named a total of 67 companies for their "excellent integrated reports." The following companies were nominated by four or more respondents as publishers of "excellent integrated reports."

✧	**ITOCHU Corporation**	**Named by eight asset managers**
✧	**MARUI GROUP CO., LTD.**	**Seven asset managers**
✧	**Daiwa House Industry Co., Ltd.**	**Six asset managers**
✧	**Ajinomoto Co., Inc.**	**Six asset managers**
✧	**OMRON Corporation**	**Five asset managers**
✧	**Mitsubishi Chemical Holdings Corporation**	**Four asset managers**
✧	**Konica Minolta, Inc.**	**Four asset managers**
✧	**Recruit Holdings Co., Ltd.**	**Four asset managers**
✧	**NSK Ltd.**	**Four asset managers**
✧	**Mitsubishi UFJ Financial Group, Inc.**	**Four asset managers**
✧	**CAPCOM CO., Ltd.**	**Four asset managers**

○Most-improved integrated reports

GPIF's 17 external asset managers for domestic equities named a total of 87 companies for their "most-improved integrated reports." The following four companies were nominated by four or more respondents as publishers of the "most-improved integrated reports."

✧	**J. FRONT RETAILING Co., Ltd.**	**Named by four asset managers**
✧	**MinebeaMitsumi Inc.**	**Four asset managers**
✧	**SHIMADZU CORPORATION**	**Four asset managers**
✧	**Mitsubishi UFJ Financial Group, Inc.**	**Four asset managers**

*Please visit following website for the details including principal comments of the asset managers.
https://www.gpif.go.jp/en/investment/pdf/excellent_and_most_improved_integrated_reports_2017.pdf

Initiatives for Promoting Dialogues between Asset Managers and Investee Companies

■ Excellent corporate governance reports selected by GPIF's external asset managers entrusted with domestic equity investment

- On June 1, 2018, the Corporate Governance Code (the "Code") was revised, and corporate governance reports in accordance with the revised Code were submitted by the end of December 2018.
- As are integrated reports, corporate governance reports are extremely important disclosures. With the aim of urging investors to utilize them, GPIF has requested external asset managers of domestic equities to nominate up to five companies that have created excellent corporate governance reports based on the revised Code, in addition to their rationale. GPIF compiled the results and announced them in February 2019.
- 17 asset managers of domestic equities named a total of 41 companies as having created "excellent corporate governance reports." The following companies were nominated by four or more respondents as publishers of "excellent corporate governance reports."

○ Excellent corporate governance reports

✧ **Kao Corporation**	**Named by seven asset managers**
✧ **KAGOME CO., Ltd.**	**Six asset managers**
✧ **EBARA CORPORATION**	**Six asset managers**
✧ **Mizuho Financial Group, Inc.**	**Five asset managers**
✧ **Eisai Co., Ltd.**	**Four asset managers**
✧ **Konica Minolta, Inc.**	**Four asset managers**
✧ **Shiseido Company, Limited**	**Four asset managers**

Promotion of ESG Activities

Critical ESG issues listed by asset managers

- In the Stewardship Principles, GPIF states "ESG integration into the investment process." Based on this, GPIF continued from the previous year to conduct a questionnaire survey and interviews concerning "Critical ESG issues" selected by each external asset manager.
- Please find "Critical ESG Issues" chosen by asset managers entrusted with equity investment on page 30.
- Based on the results, GPIF makes sure why they highlighted on such issues and how they engage with investee companies in these topics.
- In order to promote constructive dialogue between investee companies and investors, GPIF also asked investee companies their principle ESG themes in the "4th Questionnaire Survey on Stewardship Activities by Institutional Investors" conducted in January 2019.

ESG Integration

- As mentioned above, GPIF is committed to "ESG integration into the investment process" in the Stewardship Principles. In the Stewardship Activities Report 2017, GPIF stated "ESG integration across different investment styles" under the section of "Expectations and Challenges for External Asset Managers".
- Some asset managers asked us the definition of GPIF's ESG integration. Since GPIF is a signatory to PRI, we define ESG integration in accordance with PRI's definition as follows.

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

- Going forward, GPIF will assess ESG integration in asset managers' evaluation, mainly as part of "investment policy, investment process."
- ESG-related engagement and exercise of voting rights will be assessed as part of the "Stewardship Activities" as have been conducted to date.

Participating in Global Initiatives

Support to the TCFD Recommendations

- TCFD (Task Force on Climate-related Financial Disclosure) was 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 arbitrary recommendations to encourage information disclosure on the financial impact of climate-related risks and opportunities for providing appropriate investment decisions by investors. Today, more than 580 organizations worldwide such as asset owners including GPIF, financial institutions including asset managers and banks, companies and governments, have announced their supports to the recommendations of the TCFD (as of January 31, 2019).
- GPIF announced its support to the TCFD recommendations in December 2018. Fifty-one Japanese organizations, including GPIF, have expressed their support (21 financial institutions, 24 companies and six other organizations, as of January 31, 2019).
- GPIF highly values information disclosure. In selecting ESG indices including environmental indices, we ensure that the index should have a “mechanism to encourage disclosure of ESG information.” With respect to climate change, all passive managers for domestic and foreign equities and approximately 50% of active managers for domestic and foreign equities listed this as a critical ESG issue in the questionnaire survey last year. This result consequently indicates that it is also an important issue for asset owners as well. Accordingly, we are considering our own disclosure and collect relevant information. Also we are going to examine how asset managers will go forward with climate-related information disclosure, referring the best practices provided by TCFD.

Participating in Climate Action 100+

- Climate Action 100+ (hereinafter, the “CA100+”), established in September 2017, is a 5-year initiative led by investors. 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. Presently, a total of 310 organizations, including asset owners such as GPIF and asset managers, have joined the CA100+. The initiative was inaugurated officially at the One Planet Summit in France on December 12, 2017, established by PRI and four groups of institutional investors who require companies to address climate change issue.
- GPIF joined the CA100+ in October 2018 as a supporter(*).

(*) The qualification of supporters includes (1) being an asset owner; and (2) having officially announced its consent to the SIGNON statement. GPIF has joined as a supporter who is not required to conduct engagement, since GPIF is not permitted by laws and ordinances to conduct engagement to investee companies.

- GPIF, as an asset owner, has also joined the Asia Advisory Group, which provides the steering committee with advice on the characteristics of the Asian region.
- Through joining the CA100+, GPIF will broaden our horizon on how the engagement relating to climate change and the joint engagement are actually conducted, and will use such knowledge for evaluation of the stewardship activities of asset managers.

GPIF

Participating in Global Initiatives

Status of joining initiatives

Signatory of:

PRI Principles for Responsible Investment

Signed in September 2015:
Six principles advocated in 2006 by Mr. Annan, then Secretary General of the United Nations. He demanded that institutional investors include ESG in the investment process.
In January 2017, GPIF's Executive Managing Director and CIO, Hiro Mizuno took office as Managing Director of the PRI Association, and joined the Asset Owner Advisory Committee and the SDGs Advisory Committee.

30% Club GROWTH THROUGH DIVERSITY

THIRTY PERCENT COALITION

Signed in November 2016:
Both the 30% Club in the U.K. and the Thirty Percent Coalition of the U.S. were established to seek diversity in boards of directors, with the aim of achieving 30% female directors.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Supported in December 2018
See page 19 for the outline.

Climate Action 100+

Joined in October 2018
See page 19 for the outline.

Strengthened Collaboration with Stakeholders and Relevant Organizations

■ Strengthened collaboration with stakeholders and relevant organizations

<Collaboration with stakeholders>

May 2018: Lecture and exchange of opinions on the "Summary Report of the Survey on Stewardship Activities" by the Committee on Financial Markets and Capital Markets Sub-committee (The Japan Business Federation)

October 2018: Panel discussion with CalPERS and CALSTRS at "Global ESG Dialogue Forum" (Co-sponsored by the Japan Business Federation and the Ministry of Economy, Trade and Industry)

November 2018: Study Meeting "Background of Selection and the Evaluation Methodology of the GPIF's Environmental Stock Indices" by the Committee on Financial Markets and Capital Markets Sub-committee (The Japan Business Federation)

November 2018: Lecture "Evolution in ESG Investment: From the Perspective of the Environment," etc. (Supported by The Japan Business Federation, Japan Association of Corporate Executives, and the Japan Chamber of Commerce and Industry)

<Collaboration with global asset owners>

[Global Asset Owners' Forum] https://www.gpif.go.jp/en/investment/pdf/summary_3rd_Global_Asset_Owners_Forum_en.pdf

−The forum was established with the aim of creating a platform for mutual understanding and exchanging opinions among international public pension funds, in order to further fulfill stewardship responsibilities. The first Global Asset Owners' Forum was convened in Tokyo in November 2016. It was jointly organized by GPIF, CalPERS and CalSTRS.

−Members other than organizers are as follows (as of October 2018) :

U.S.: Florida State Board of Administration, The Regents of the University of California, and The World Bank

Canada: bcIMC and OTPP

Europe: NBIM, APG, PGGM, AP2, ERAFP, and USS

Singapore: GIC

Australia: HESTA

−In October 2018, the 4th meeting of the Global Asset Owners' Forum was convened in Tokyo. The members, consisting mainly of CEOs and CIOs, discussed issues and challenges of the whole investment chain.

−In line with the Global Asset Owners' Forum, the Japan Business Federation and the Ministry of the Economy, Trade and Industry co-hosted high-level breakfast meeting, where we exchanged opinions with executives from Japanese companies. Three CIOs from co-leading hosts also participated in the above-mentioned "Global ESG Dialogue Forum" as speakers.

Strengthened Collaboration with Stakeholders and Relevant Organizations (Continued)

■ Strengthened collaboration with stakeholders and relevant organizations (Continued)

<Participation in meetings organized by ministries>

Ministry of Foreign Affairs
The Round Table for Promoting Implementation of Sustainable Development Goals (SDGs) – Council member: President, Norihiro Takahashi

Ministry of Economy, Trade and Industry
TCFD Study Group on Implementing TCFD recommendations for mobilizing green finance through proactive corporate disclosure – Speaker: Executive Managing Director and CIO, Hiro Mizuno

Ministry of the Environment
High Level Meeting on ESG Finance –Council member: Executive Managing Director and CIO, Hiro Mizuno (up to June 2018)
Published the "Recommendation from the High Level Meeting on ESG Finance – Toward becoming a big power in ESG finance ー" (July 27, 2018)

Cabinet Secretariat, Ministry of Foreign Affairs, Ministry of Economy, Trade and Industry, and Ministry of the Environment
Meeting on a Long-Term Strategy under the Paris Agreement as a Growth Strategy ーCouncil member: Executive Managing Director and CIO, Hiro Mizuno

<Presentations at various seminars and international conferences (since January 2018)>

January 2018: 2018 Investor Summit on Climate Risk
April 2018: IMF World Bank Spring Meeting
May 2018: Milken Institute Global Conference 2018
June 2018: The 1st UN Woman Seminar 2018
June 2018: ICGN (International Corporate Governance Network) Annual 2018 Conference
September 2018: SDGs Corporate Strategy Forum
September 2018: United Nations Private Sector Forum 2018
October 2018: Asia Forum
November 2018: G20 Summit: Investor Forum

Reference: PRI (Principles for Responsible Investment) and SDGs (Sustainable Development Goals)

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

Increase in investment opportunities

Increase in business opportunities

ESG Investment

GPIF

Investment management companies

Companies

Promotion of ESG

Signed in September 2015

Investment returns

Consent

Creating Shared Value (CSV)

Sustainable Society

PRI Principles for Responsible Investment

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
(Principles 4 through 6 are omitted.)

GPIF's initiative:
Executive Managing Director and CIO, Hiro Mizuno was appointed as a member of the Asset Owner Advisory Committee (in January 2016).
Hiro Mizuno assumed the position of PRI board member (in January 2017).

GPIF's initiative:
President, NorihiroTakahashi attended the meeting of the government-organized round table for promoting implementation of SDGs. (September 2016)

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

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

GPIF's View on Current Status of External Asset Managers

Stewardship Activities on Equity Investment

- While the overall quality has been improved, speed of actions and responses are vary depending on each asset manager.
- Some passive managers for equities enhanced their measures to establish a designated department or committees in charge of stewardship activities. Full-fledged efforts toward stewardship activities and more organized efforts throughout the year can be observed.
- In stewardship reports, they formulated and disclosed plans for stewardship activities from a medium- to long-term perspectives, including forecasts, stewardship policies for the following fiscal years, priority actions, and other activities planned for several years ahead, beyond the current efforts .
- There are some foreign asset managers which do not fully understand the GPIF's Stewardship Principles.
- While active managers implement engagement activities, how they define them and what they do vary depending on organizational structures and investment styles. Some managers have a designated department in charge of the stewardship activities including engagement, while others do not. For the former case, it is necessary to confirm the evaluation methods for integration and stewardship activities within their organization. While for the latter case, the focus should be rather to confirm the commitment of fund manager, leadership initiatives to make it more organized activities, as well as the evaluation methods for stewardship activities.
- All asset managers for domestic and foreign equities answered that they have taken measures for ESG issues. With respect to managers for domestic equities, some have taken further measures for "E (environment)" and "S (social)" issues, compared to the past. Some active managers for domestic equities have also taken further measures for "E (environment)" and "S (social)" issues, in addition to proactive engagement concerning "G (governance)" issues.
- We believe that integrated reports and corporate governance reports are primary tools for two-way engagement in implementing engagement activities and measures for ESG issues. While we expect that they will continue to be utilized for dialogues between external asset managers and companies, the degree of utilization of those reports seem to differ. We expect that analysts and fund managers who are not specialized in stewardship and ESG issues will also deploy these reports.
- Some managers are promoting reform measures of not only investee companies but also the whole investment chain, by ways of submission of public comments on the corporate governance code and proactive engagement with stock exchanges and index providers.
- The Japanese asset managers have also increasingly participated in global initiatives, using them as platforms to acquire knowledge and conduct joint engagements.

GPIF's View on Current Status of External Asset Managers

<Exercise of Voting Rights>

- While it depends on the cases, overall we positively assess asset managers when they exercise their voting rights in a way that it is not necessarily pursuant to voting policies but in line with their activities or actual situations. As we consider voting along with engagement, we expect asset managers to take measures that would contribute to enhancing long-term corporate value.
- In the announcement of the results of exercising individual voting rights by asset managers for domestic equities, there are obvious differences in timing, frequency and items of disclosure. We also found some asset managers' disclosure inappropriate for dialogues with companies towards next year's general meeting of shareholders. Many asset managers, however, make quarterly disclosures so that the announced results will be of use in the dialogue after the general meeting of shareholders. Some asset managers state the reasons for objection, and draw attention by attaching flags to investees that may cause conflicts of interest such as business partners within the Group .
- Some asset managers for domestic equities have introduced more stringent voting policies based on consultations with the third-party committee. Also more and more managers have reviewed their voting policies immediately following the general meeting of shareholders, or disclosed their voting policies well ahead of the schedule to be prepared for engagement with companies.
- Regarding voting instruction errors and administrative errors made by custodians, we have requested asset managers and custodians to take appropriate measures, considering the importance of exercising voting rights.

<Stewardship Activities on Fixed Income Investment>

- More and more Japanese and foreign asset managers for fixed income investment have expanded the scope of the ESG integration and stewardship activities including ESG engagement.
- Since the revised draft of the Stewardship Code in the United Kingdom has clarified that bonds are included in the scope of stewardship responsibilities, GPIF has studied how to fulfill the stewardship responsibilities including the engagement activities in fixed income investment, by deploying the joint research with the World Bank and others.

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

[Issues carried over from the previous year]

- ✓ Governance of foreign asset managers. Establishment of a system to prevent conflicts of interest with a parent company and others. Ensuring transparency of the system.
- ✓ While the establishment of third-party committees has been progressed, in some cases it is difficult to confirm how committee meetings are actually held, and where the targets subject to the management of conflicts of interest are extremely limited." As the involvement in voting varies largely depending on asset managers, it may be necessary to verify the facts and conduct a review in order to make it more effective in the future.
- ✓ Since there has been progress in the management of conflicts of interest and the development of voting guidelines, we believe that it is important to make revisions according to the actual situation and utilize them appropriately for practical purposes.

- At Japanese asset managers for equities, the organizational segregation aimed at preventing conflicts of interest between the asset management division and other divisions has been promoted, including by way of company split and integration of the asset management division. In addition, all Japanese asset managers for equities have already organized proper governance structures, including the election of outside directors and the establishment of a third-party committee comprised mainly of outside directors. The focus has now shifted to their effectiveness and improvement, if necessary.

- Meanwhile, it was revealed that some foreign asset managers had no organizational segregation or no visible scheme to prevent conflicts of interest, indicating that the predominance of external foreign asset managers has no solid basis as expected.

- It is confirmed that conflicts of interest in voting and voting guidelines have been well organized.

- The compensation schemes for executives and employees of external asset managers ultimately reflect the positioning within the Group, the relationship with a parent company, and corporate culture. This suggests the importance of the compensation scheme and the incentive system.

[Remaining issues]

- ✓ While third-party committees are established in all Japanese asset managers entrusted with equity investment, there were some cases in which the status of holding of committee meetings are hardly visible from outside and "there were cases where the targets subject to the management of conflicts of interest are extremely limited," and the involvement in voting also varies largely depending on external asset managers. Given changes in some organizations, it may be necessary to verify the facts and conduct a review in order to make it more effective in the future.
- ✓ Since there has been progress in the management of conflicts of interest and the development of voting guidelines, we believe that it is important to make revisions according to the actual situation and utilize them appropriately for practical purposes.
- ✓ As to the compensation scheme for executives and employees of external asset managers, a survey is being conducted on whether such scheme excludes the short-termism and aims to establish an alignment with asset owners in the long run.

Engagement by Passive Managers and Proper Exercise of Voting Rights

[Issues carried over from the previous year]

- ✓ Proposals of new business models from passive managers in alignment with the needs of asset owners focusing on stewardship activities.
- ✓ Internal evaluations of external asset managers concerning stewardship activities.
- ✓ In the passive investment of foreign equities, some asset managers cannot afford resources required for voting rights and engagement.

- The new business models will be adopted as shown in page 10. We continue to expect further proactive proposals.
- All passive managers for equities have established a designated department in charge of engagement activities from the perspective of enhancing long-term corporate value in collaboration with investee companies, and are developing and reinforcing necessary systems. In engagement activities, there are also cases in which departments in charge of stewardship activities and ESG collaborate with sector analysts and fund managers.
- Some passive managers for domestic equities are conducting dialogues in accordance with the engagement enhancement plan and policies. Engagement have been conducted on a wide range of themes by utilizing external and proprietary data on ESG.
- Meanwhile, with respect to exercise of voting rights, some asset managers were exercising voting rights on different criteria depending on the timing of the general meeting of shareholders.
- In the passive investment of foreign equities, some asset managers conducted engagement efficiently and effectively by using frameworks of joint engagement such as PRI and Climate Action 100+ in addition to their internal resources. On the other hand, some asset managers proactively participate in the joint engagement by serving the role of lead manager, etc.

[Remaining issues]

- ✓ Establishment of new business models proposed by passive managers in accordance with the needs of asset owners who are focused on stewardship activities (as stated in page 10), and the verification of the effectiveness of the appointed fund (as stated in page 10).
- ✓ New proposals including ESG integration in the passive investment.
- ✓ Exercise of voting rights and its disclosure in accordance with the understanding the purpose of the GPIF's Proxy Voting Principles.
- ✓ Implementation of engagement in an effective manner of the passive investment in foreign equities.

Critical ESG Issues

[Issues carried over from the previous year]

✓ Formulation and implementation of engagement policies and plans related to material ESG issues pointed out by external asset managers entrusted with domestic equities

- In the Stewardship Principles enacted in June 2017, GPIF stipulated that asset managers should consider the materiality of ESG issues and that they should proactively engage with investee companies on critical ESG issues. In light of the above, the following issues were identified as material ESG issues among asset managers entrusted with domestic equities. (The table below represents the issues pointed out by all asset managers whereas the table in page 30 shows the top five issues.)
- With regard to passive managers that hold investees' stocks as long as they are included in indices, we have found that all asset managers for domestic and foreign equities recognize that "Climate change" was a material ESG issue, and consider the long-term issues such as E (environment) and S (social) including supply chain and diversity as extremely material ESG issues.
- Among active managers whose primary holding periods are approximately several months to a few years, the material ESG issues for domestic equity managers are different from those for foreign equity managers. All of those for foreign equities consider climate change as material, and each of the issues of E, S and G is expected to continue. Meanwhile, it was revealed that managers for domestic equities recognize that G (governance) was more material among the ESG issues, as "Board Structure and self-evaluation" having been pointed out by all of those asset managers. Meanwhile "Capital efficiency" and "Minority shareholder rights (cross shareholding, etc.)" were listed by more than 90% of them. It should be noted, however, that "Supply chain" and "Labor standard" were ranked higher than the previous survey result, which shows that the scope of materiality in the domestic equity investment has been expanded.

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

	Passive investment	Active investment
Domestic equity	**Climate change, supply chains, misconduct**	**Board Structure and self-evaluation**
Foreign equity	**Climate change, diversity, water stress/water security, other (social)**	**Climate change**

[Remaining issues]

✓ Next step would be verification of how engagement is conducted on these critical ESG issues they listed

✓ Investors also should disclose the critical ESG issues

Critical ESG Issues (Top 5)

Domestic asset managers entrusted with equity passive investment

1. **Climate change**
1. **Supply chain**
1. **Misconduct**
4. Capital efficiency
4. Disclosure
4. Human rights and community
4. Diversity
4. Other (governance)

Domestic asset managers entrusted with equity active investment

1. **Board Structure and self-evaluation**
2. Capital efficiency
2. Minority shareholder rights (cross shareholding, etc.)
4. Supply chain
5. Corporate governance
5. Disclosure
5. Misconduct
5. Labor standards

Foreign asset managers entrusted with equity passive investment

1. **Climate change**
1. **Diversity**
1. **Water stress, water security**
1. **Other (social)**
5. Environment opportunities
5. Corporate governance
5. Supply chain
5. Disclosure
5. Deforestation
5. Board Structure and self-evaluation
5. Misconduct
5. Risk management
5. Other (governance)

Foreign asset managers entrusted with equity active investment

1. **Climate change**
2. Supply chain
3. Environment opportunities
3. Corporate governance
3. Diversity
3. Board Structure and self- evaluation
3. Other (social)

* Issues listed by all asset managers are marked in red.

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 the levels throughout their organizations**
- ✓ **Enhance the governance and effectiveness of measures to prevent conflicts of interest**
- ✓ **Propose and firmly establish business models for "new passive investment" to align with GPIF's Stewardship Principles**
- ✓ **ESG integration across different investment styles**
- ✓ **Suitable compensation scheme for executives and employees**
  - Whether the scheme is not foment the short-termism
  - Whether the scheme has long-term alignment of interest with asset owners
- ✓ **Stewardship activities in fixed income investments**
- ✓ **Improve the quality of disclosure**
  - Disclosure of voting principles and the results of exercise of voting rights
  - Disclosure in line with TCFD Recommendation
  - Disclosure of critical ESG issues (materiality)

GPIF's Action Plans going forward

- ✓ **"Enhance engagement" with external asset managers focusing on two-way communication**
  - Assessing the compliance status of GPIF's Stewardship Principles
  - Responses to the stewardship activities of asset managers, including governance structure, compensation schemes, asset management and ESG
  - Dialogues with each stratum from top management to persons in charge, according to themes
- ✓ **Consider possible joint engagement by asset owners with external asset managers**
  - Collaboration by theme
- ✓ **Examine evaluation criteria and fee structure in line with business models of "new passive investment" in the era of stewardship**
  - Verifying the achievements of the engagement including ESG
  - Seeking the management methods including ESG integration in the passive investment
- ✓ **Analyze the current status of ESG integration and examine the evaluation methods**
  - Fact-finding investigations on the ESG integration of external asset managers
  - Reviewing the evaluation methods
- ✓ **Examine the compensation scheme for executives and employees at external asset managers to align interests with asset owners**
- ✓ **Research on how the stewardship responsibilities in fixed income investment should be fulfilled**
  - Examine the status of engagement of external asset managers in fixed income investment

Summary of Exercising of Shareholders' Voting Rights (from April to June 2018)

1. Domestic Equities

15 passive investment funds managed by external asset managers and 14 active investment funds managed by external asset managers (29 funds in total)

(1) Summary
・ All of the external asset managers exercised their voting rights.
・ Regarding management proposals, the item with the largest number of opposition votes was “Appointment of Directors,” and those with a higher rate of disapproval included “Poison Pills,” “Granting of Director retirement bonuses,” and “Appointment of Outside Statutory Auditors.”

(2) Proposals related to company organization
・Proposals for “Appointment of Directors” were opposed mainly in the following cases:
a. regarding the appointment of an internal director, where responsibility was present for poor business performance and misconduct;
b. regarding the appointment of an outside director, where it was determined that there was a problem with his/her independence or attendance rate; or
c. regarding the revision of the voting guideline on thresholds for number of outside directors, where such thresholds were not met.

(3) Proposals pertaining to capital policy
・For “Mergers, transfer of business, company split, etc.,” the number of proposals decreased significantly compared to the previous fiscal year. The number of proposals was higher in the previous fiscal year because many companies conducted consolidation of shares, and because of the change in the share trading unit that occurred by the end of 2017 ahead of the expiry of the transition period for changing the share trading unit to 100 shares in October 1, 2018.

(4) Proposals pertaining to changes to the articles of incorporation
・For “Proposals pertaining to changes to the articles of incorporation,” a decrease was seen in the number of proposals from the previous year. The number of proposals increased in the previous year because, as mentioned above, there were many proposals pertaining to the change in the share trading unit ahead of the expiry of the transition period for changing the share trading unit to 100 shares.

(5) Proposals pertaining to Poison Pills
・For “Poison Pills,” the number of proposals decreased compared to the previous year. This was because the number of companies whose Poison Pills expired and that renewed them decreased from the previous year.
• Opposition votes were cast when there was doubt concerning ensuring corporate value and shareholder value or concerning the independence of the independent committee that considers the activation and deactivation of such measures.

(6) Others
・Proposals by shareholders are within the scope of scrutiny of all external asset managers.

2. Foreign Equities

8 passive investment funds managed by external asset managers and 11 active investment funds managed by external asset managers (19 funds in total)

(1) Summary
• All of the external asset managers exercised their voting rights.
• Regarding proposals by company, the item with the largest number of opposition votes was “Appointment of Directors,” and those with a higher rate of opposition votes included “Poison Pills,” “Directors‘ bonuses,” “Director retirement bonuses” as well as the “Granting of stock options.”
・The number of abstentions increased significantly due to a change in the exercise of voting rights system in the Brazilian market.

(2) Countries in which voting rights were exercised
• Nine external asset managers did not exercise voting rights in some countries in which they had investments. The main reason for this was the existence of share-blocking schemes in emerging market countries.

(3) Use of voting advisory firms
• All of the external asset managers are using voting advisory firms. The purposes vary depending on the manager. Some use them to receive information useful for making judgments on the exercise of voting rights. Others use them to obtain advice on judgments on such exercise from voting advisory firms by presenting their guidelines.
• Reasons for using such voting advisory firms include preventing conflicts of interest through the use of third-party judgments, in addition to making use of professional competence.

FY2018 Summary Report on the Exercise of Shareholder Voting Rights(from April to June 2018)

1. Domestic equities

(1) Exercise of voting rights by external asset managers

All external asset managers (29 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		Other proposals	Total
		Appointment of Directors	Of which, appointment of outside Directors	Appointment of Statutory Auditors	Of which, appointment of Outside Statutory Auditors	Appointment of Accounting Auditors	Director remuneration	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, transfer of business, company split, etc.		Warning type	Trust type		
Total number of voting rights exercised		115,356	33,403	11,158	7,558	142	2,976	1,392	932	668	9,558	9	641	3,927	360	1	135	147,255
Management proposals	Total	115,084	33,318	11,146	7,558	142	2,963	1,392	932	668	9,510	4	641	2,826	360	1	118	145,787
		(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%)	(100.0%)	(100.0%)
	Approved	103,548	28,719	9,520	6,013	142	2,764	1,139	391	539	9,138	4	635	2,773	31	0	102	130,726
		(90.0%)	(86.2%)	(85.4%)	(79.6%)	(100.0%)	(93.3%)	(81.8%)	(42.0%)	(80.7%)	(96.1%)	(100.0%)	(99.1%)	(98.1%)	(8.6%)	(0.0%)	(86.4%)	(89.7%)
	Opposed	11,536	4,599	1,626	1,545	0	199	253	541	129	372	0	6	53	329	1	16	15,061
		(10.0%)	(13.8%)	(14.6%)	(20.4%)	(0.0%)	(6.7%)	(18.2%)	(58.0%)	(19.3%)	(3.9%)	(0.0%)	(0.9%)	(1.9%)	(91.4%)	(100.0%)	(13.6%)	(10.3%)
Shareholder proposals	Total	272	85	12	0	0	13	0	0	0	48	5	0	1,101	0	0	17	1,468
		(100.0%)	(100.0%)	(100.0%)	(0.0%)	(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	6	3	0	0	0	6	0	0	0	12	2	0	100	0	0	3	129
		(2.2%)	(3.5%)	(0.0%)	(0.0%)	(0.0%)	(46.2%)	(0.0%)	(0.0%)	(0.0%)	(25.0%)	(40.0%)	(0.0%)	(9.1%)	(0.0%)	(0.0%)	(17.6%)	(8.8%)
	Opposed	266	82	12	0	0	7	0	0	0	36	3	0	1,001	0	0	14	1,339
		(97.8%)	(96.5%)	(100.0%)	(0.0%)	(0.0%)	(53.8%)	(0.0%)	(0.0%)	(0.0%)	(75.0%)	(60.0%)	(0.0%)	(90.9%)	(0.0%)	(0.0%)	(82.4%)	(91.2%)

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 abstention or non-exercise.
* Resolutions of J-REIT general meetings of investors are included above.

FY2018 Summary Report on the Exercise of Shareholder Voting Rights (from April to June 2018)

2. Foreign equities

(1) Exercise of voting rights by external asset managers

All external asset managers (19 funds) exercised their voting rights.

Country of exercise	1. All countries invested in	10 funds	(52.6%)
	2. Some countries invested in	9 funds	(47.4%)

(Note) Figures in parentheses show the ratio to the total (19 funds).

(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 (Warning type)	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		76,040	3,309	9,592	14,986	125	285	2,507	7,316	4,042	9,349	4,984	193	10,230	27,694	170,652
Management proposals	Total	74,611	2,867	9,538	14,750	125	279	2,479	7,277	4,042	9,334	4,280	181	10,224	25,324	165,311
		(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	67,066	2,483	9,412	12,758	90	206	1,851	7,227	3,596	7,495	3,839	109	10,101	22,017	148,250
		(89.9%)	(86.6%)	(98.7%)	(86.5%)	(72.0%)	(73.8%)	(74.7%)	(99.3%)	(89.0%)	(80.3%)	(89.7%)	(60.2%)	(98.8%)	(86.9%)	(89.7%)
	Opposed	7,545	384	126	1,992	35	73	628	50	446	1,839	441	72	123	3,307	17,061
		(10.1%)	(13.4%)	(1.3%)	(13.5%)	(28.0%)	(26.2%)	(25.3%)	(0.7%)	(11.0%)	(19.7%)	(10.3%)	(39.8%)	(1.2%)	(13.1%)	(10.3%)
Shareholder proposals	Total	1,429	442	54	236	0	6	28	39	0	15	704	12	6	2,370	5,341
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	763	337	50	99	0	0	8	19	0	9	406	11	6	1,141	2,849
		(53.4%)	(76.2%)	(92.6%)	(41.9%)	(0.0%)	(0.0%)	(28.6%)	(48.7%)	(0.0%)	(60.0%)	(57.7%)	(91.7%)	(100.0%)	(48.1%)	(53.3%)
	Opposed	666	105	4	137	0	6	20	20	0	6	298	1	0	1,229	2,492
		(46.6%)	(23.8%)	(7.4%)	(58.1%)	(0.0%)	(100.0%)	(71.4%)	(51.3%)	(0.0%)	(40.0%)	(42.3%)	(8.3%)	(0.0%)	(51.9%)	(46.7%)

Notes:
* Figures in parentheses represent percentages for each proposal. The total percentage may not add up to 100 due to rounding.
* “Opposed” figures include 732 abstentions.

FY2018 Summary Report on the Exercise of Shareholder Voting Rights (from April to June 2018)

Number of Voting Rights Exercised: Comparison by Fiscal Year (April to June)

Note: Comparisons by fiscal year of votes against management proposals or abstention vs. votes supporting shareholder proposals

(Proposals)

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

- Reference-
Policy to Fulfill Stewardship Responsibilities

1. Basic Policies

(1) Concepts on Stewardship Responsibilities

•The Government Pension Investment Fund (GPIF) is a universal owner, an investor with a very large fund size and a widely diversified portfolio across the overall capital market, and a super long-term investor designed as a part of 100 years sustainable pension scheme. Given such features, the sustainable and stable growth of the overall capital market is essential for GPIF to secure its long-term investment returns.

•As GPIF invests in equities and exercises voting rights through its external asset managers (asset managers), it promotes constructive dialogues (engagement) between asset managers and investee companies. GPIF will thus fulfill stewardship responsibilities by promoting engagement between asset managers and investee companies, and building a win-win relationship in the investment chain. In this chain, medium- to long-term improvement in corporate value will lead to growth of the overall Japanese economy, which will eventually enhance investment returns.

•GPIF is committed to accomplishing its mission, which is to maximize medium- to long-term investment return for the beneficiary through various activities, fulfilling stewardship responsibilities and contributing to stable operations of the pension system. The mission takes into account issues related to environmental, social and governance (ESG) . Taking into consideration ESG issues will increase the risk-adjusted return by reducing risks, and GPIF believes that the longer the investment horizon is, the greater the risk-reduction effect becomes.

•As an "asset owner" defined by Japan's Stewardship Code (the Code), GPIF is directly engaged in initiatives that it can execute on its own as stated in (2) below. Meanwhile, for investment activities to be conducted by asset managers as stated in (3) below, GPIF understands the state of their implementation, conducts appropriate oversight, proactively has dialogue (engagement) with asset managers, and publishes "Report of GPIF's Stewardship Activities" for each fiscal year, fulfilling its stewardship responsibilities.

(2) Policies Concerning Initiatives Undertaken by GPIF

•GPIF shall fulfill its roles and responsibilities as an asset owner in line with the Code, and promote stewardship activities with a study of appropriate stewardship responsibilities, attempting to maximize medium- to long-term investment return for the beneficiary.

•From the viewpoint of fiduciary responsibilities, GPIF shall examine various activities (such as research and study for the selection of benchmarks oriented for improvement in long-term capital productivity, etc.) which are intended to maximize medium- to long-term investment return for the beneficiary.

(3) Policies Concerning Initiatives Conducted by Asset Managers

•GPIF shall require asset managers for domestic and foreign equity investments to comply with its "Stewardship Principles" and "Proxy Voting Principles." Should an asset manager decide not to comply with any of the principles, it is required to explain the rationale for the non-compliance to GPIF.
•GPIF shall continuously monitor the stewardship activities of asset managers, including the exercise of voting rights, and proactively conduct dialogue (engagement) with them.
•In the evaluation of asset managers, GPIF shall highly value asset managers that are considered to have better fulfilled their stewardship responsibilities, other conditions being the same.

2. Measures on Each Principle of the Code Omitted. (Details: https://www.gpif.go.jp/en/investment/pdf/policy_fulfill_stewardship_responsibilities.pdf)

- Reference -
Stewardship Principles

Government Pension Investment Fund (GPIF) requires its external asset managers ("asset managers") for domestic and foreign equity investments to comply with the following principles. If an asset manager should decide not to comply with any of the principles, it is required to explain the rationale for the non-compliance to GPIF.
In order to fulfill its own stewardship responsibilities, GPIF continuously monitors the stewardship activities of asset managers, including the exercise of 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 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 when conducting activities. 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. Asset Managers should select committee members, considering the candidates' independence and experience, among other factors.
-When exercising voting rights for their own institutions or interested parties such as their parent companies or group companies, asset managers should develop a process to prevent arbitrary decisions through such measures as letting their third-party committee make voting decisions or examining the validity of their own decision, or following a recommendation by a proxy advisor.

(3) Policy for Stewardship Activities, including Engagement
-Asset managers should develop and publicly disclose a policy of their stewardship activities including engagement.
-Asset managers should focus on ensuring that their stewardship policy and activities contribute to medium- to long-term shareholder value and, not falling into short-termism. In addition, for more effective stewardship activities, asset managers should consider formulating medium- to long-term action plans.
-Asset managers should take non-financial information into consideration when engaging investee companies. Non-financial information should include (but not limited to) Corporate Governance Reports and Integrated Reports.
-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, asset managers should seek full explanations and engage with the companies if necessary.
-Given the significance for passive investment of GPIF equity portfolio, GPIF's performance depends upon medium- to long-term sustainable growth of capital markets. Asset managers for passive mandate should develop and effectively implement a suitable engagement strategy for passive investment.
-When using an engagement agency, asset managers should conduct proper due diligence prior to selection and continuous monitoring after selection.

- Reference -
Stewardship Principles (continued), and Proxy Voting Principles

(4) ESG Integration into the Investment Process

-GPIF believes that it is vital to integrate ESG factors into the investment process to promote sustainable growth of corporate value and better medium- to long-term risk adjusted return for GPIF. Asset managers should consider the materiality of ESG issues in relevant sectors and circumstances of individual investee companies and deal with those issues accordingly.

-Asset managers should proactively engage with investee companies on critical ESG issues.

-Asset managers should become a signatory of the Principles for Responsible Investment (PRI).

(5) Exercise of Voting Rights

-Asset managers should exercise voting rights exclusively in the best interests of GPIF and its beneficiaries.

- In order to increase 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 advisor, asset managers should conduct proper due diligence prior to selection. After selection, asset managers should continuously monitor service quality and engage with the proxy advisor as necessary (excluding cases where the objective is managing conflicts of interest).

[Exercise of voting rights]

-GPIF's external asset managers ("asset managers") should develop a proxy voting policy and guidelines to maximize shareholders' long-term interests. The policy and guidelines should be publicly disclosed in the way to make their basis of judgment clear.

-Asset managers should sufficiently communicate with investee companies to help inform proxy voting decisions and to ensure that all voting rights are exercised with thoughtful consideration.

-Asset managers should give careful consideration to 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.

- Asset managers should exercise voting rights in accordance with Corporate Governance Codes established by individual countries. When there is no such code or equivalent, asset managers should appropriately exercise voting rights consistent with the standard that they require investee companies to follow.

- If asset managers use a proxy advisory service to exercise voting rights, asset managers should not mechanically follow the advisor's recommendations (excluding cases in which the objective is to manage conflicts of interest). It is the sole responsibility of asset managers to exercise voting rights in the best interests of GPIF and its beneficiaries.

[After shareholders' meetings]

-Asset managers should publicly disclose all voting records at each investee company.

-Asset managers should explain to investee companies or publicly disclose the voting records and rationale, depending upon the importance and relevance.

-Asset managers should periodically review their voting records and process, and make necessary updates to the policy.

GPIF Homepage

https://www.gpif.go.jp/en/

GPIF YouTube channel

https://www.youtube.com/channel/UCWpjyPh1kw0VyfIPpcVMIXw

GPIF twitter

https://twitter.com/gpiftweets