

May 30, 2014

Revised on August 1, 2017

Adoption of Japan's Stewardship Code

Government Pension Investment Fund

1. Basic Concepts on the Adoption of the Code

- Government Pension Investment Fund (GPIF) is an independent administrative agency whose primary objective¹ is to contribute to the stability of the schemes of Employees' Pension Insurance and National Pension by managing and investing the reserve funds entrusted by the Minister of Health, Labour, and Welfare (the Reserve Funds) and by distributing the investment return to the Pension Special Account.
- GPIF formulates Medium-term Plans including the policy asset mix from a long-term perspective, matters to be observed for management and investment, etc., in accordance with applicable laws and regulations and the Medium-term Objectives indicated by the Minister of Health, Labour and Welfare (Laws and Regulations). According to the said Medium-term Plans, GPIF invests in domestic and foreign bonds and equities. Actual investments are entrusted to trust banks and investment management companies (asset managers), except for certain investments in bonds.
- The "Council of Experts on the Stewardship Code" (convened by the Financial Services Agency) recently released the "Principles for Responsible Institutional Investors [Japan's Stewardship Code]" (the Code), as a set of principles that are considered to be useful for responsible institutional investors in fulfilling "Stewardship Responsibilities."

¹ Article 3 of the Act on the Government Pension Investment Fund (the GPIF Act) (Act No. 105 of 2004)

- “Stewardship Responsibilities” as prescribed in the Code refer to the responsibilities of institutional investors to enhance medium- to long-term investment return for their clients and beneficiaries by improving and fostering corporate value and sustainable growth of Japanese investee companies, through constructive or purposeful dialogue (engagement) with the companies, based on in-depth knowledge of the companies and their business environment.
- Article 20, Paragraph 2 of the GPIF Act stipulates that the management and investment of the Reserve Funds should be conducted “in consideration of influences on the financial market and other private sector activities.” However, the Expert Panel on Economic Assumptions for Pension Financing and Investment Objectives of the Reserve Funds under the Pension Sub-Committee of the Advisory Council Social Security for the Ministry of Health, Labour and Welfare suggested that formulation and disclosure, etc. of the policy in exercising voting rights should be considered in light of the Code, based on the above-mentioned Article. It suggested such activities should also be based on opinions from the Investment Advisory Committee of GPIF, that includes members recommended by both labor and business. Since then GPIF has been discussing possible adoption, etc. of the Code.
- To maximize medium- to long-term investment return for the beneficiary by improving and fostering investee companies’ corporate value and sustainable growth is appropriate for the nature of the Reserve Funds, and critical for GPIF that holds domestic equities over the long term. From such perspective, GPIF has adopted the Code, and will fulfill the stewardship responsibilities. It will do so by complying with the Code to the extent possible on its own, or understanding the implementation of the Code by asset managers, and also by disclosing summary of implementation every fiscal year.
- In fulfilling stewardship responsibilities, GPIF will pay due consideration, with regard to investment of the Reserve Funds, to the following points as prescribed by applicable laws and regulations:

 - (1) GPIF should manage and invest the Reserve Funds exclusively for the benefit of the beneficiary;
 - (2) GPIF should manage and invest the Reserve Funds in a safe and efficient manner from a

long-term perspective²; and

- (3) GPIF should consider influences on the financial markets and other private sector activities³ and also pay due consideration for the following points as indicated by the Medium-term Objectives:
- (4) GPIF should take appropriate measures such as exercising voting rights from the viewpoint of maximizing the long-term shareholders' value, etc., while paying due consideration not to exert influence on corporate management in the private sector⁴; and
- (5) GPIF should not select individual shares by its own in equity investments, taking into consideration the impact on corporate management⁵.

2. Measures for Each Principle of the Code

Please see “the Policy to Fulfill Stewardship Responsibilities” as per the separate sheet.

² Article 79-2 of the Employees' Pension Insurance Act (Act No. 115 of 1954) and Article 75 of the National Pension Act (Act No. 141 of 1959)

³ Article 20, Paragraph 2 of the GPIF Act

⁴ GPIF Medium-term Objectives No. 2-5(1)

⁵ GPIF Medium-term Objectives No. 2-5(1)