



Stewardship Activities Report 2017

Government Pension Investment Fund

February 2018

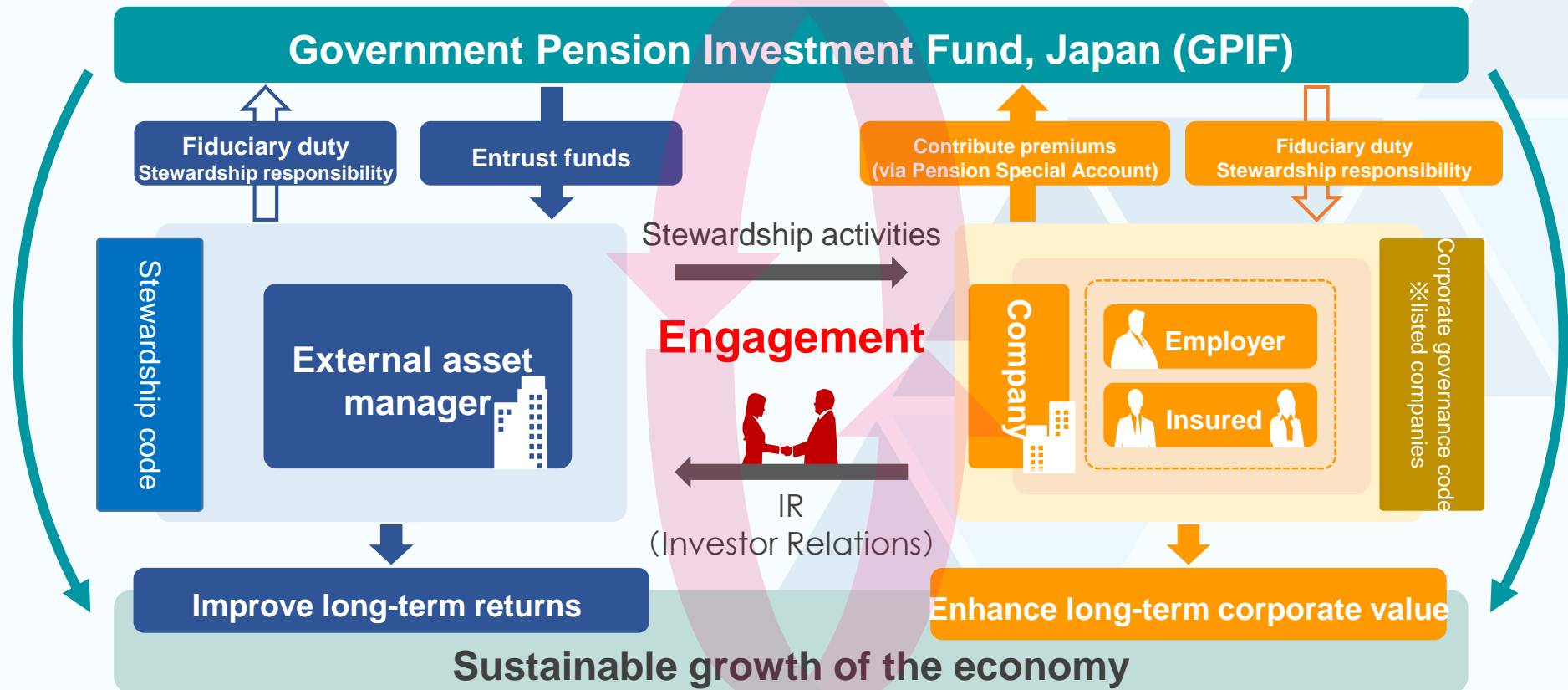


1. Stewardship & ESG Activities of GPIF



The Significance of Stewardship Activities for GPIF

It is essential for GPIF, as a “**universal owner**” (an investor with a very large fund size and a widely diversified portfolio) and a “**super-long-term investor**” (designated as part of 100-years sustainable pension scheme), to minimize negative externalities of corporate activities (environmental and social issues, etc.) and to promote steady and sustainable growth of the overall capital market. GPIF invests in equities and exercises voting rights via external asset managers. **GPIF will thus fulfill stewardship responsibilities by promoting constructive dialogues (engagement) in consideration of ESG (Environmental, Social and Governance) factors between its external asset managers and investee companies, and building a win-win relationship in the investment chain. In this chain, a long-term improvement in corporate value will lead to growth of the overall Japanese economy, which will eventually enhance long-term investment returns.**



Stewardship & ESG Activities

Description	
January 2017	Published “Summary Report of GPIF's Stewardship Activities in 2016”
April 2017	Convened the 2 nd meeting of Businesses and Asset Owners’ Forum
May 2017	Convened the 2 nd meeting of Global Asset Owners’ Forum
May 2017	Published “Summary Report of the 2 nd Survey of Listed Companies regarding Institutional Investors’ Stewardship Activities”
June 2017	Published “Stewardship Principles” and “Proxy Voting Principles”
June 2017	Request to External Asset Managers for Disclosure of Proxy Voting Records
July 2017	Selected “ESG indices for Japanese equities”
August 2017	Updated “Policy to Fulfill Stewardship Responsibilities” in accordance with the revised Japan’s Stewardship Code
October 2017	Revised “Investment Principles”
October 2017	Convened the 3 rd meeting of Businesses and Asset Owners’ Forum
November 2017	GPIF and World Bank Joined Forces to Mobilize Capital Markets for Sustainable Investments - Joint Research Program regarding ESG Integration into Fixed Income Portfolios -
November 2017	Started Call for Applications for Global Environmental Stock Indices
November 2017	Convened the 3 rd meeting of Global Asset Owners’ Forum

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 decision

Establishment
 and Revision of
 Principles & Policies

- Revised GPIF's Investment Principles (page 6)
- Established Stewardship Principles & Proxy Voting Principles (page 7-8)
- Revised Policy to Fulfill Stewardship responsibilities (page 8)

Expand Stewardship & ESG
 Activities to All Asset Classes
 Enhance Engagement
 Other Activities

- Consider ESG factors in the selection of Asset Managers for Alternative Assets (page 9)
- GPIF and World Bank Joined Forces to Mobilize Capital Markets for Sustainable Investments - Joint Research Program regarding ESG Integration into Fixed Income Portfolios - (page 9)
- Engagement with external asset managers (page 10-14)
- Engagement with index providers (page 15)
- Conducted a survey on companies of the JPX-Nikkei Index 400 (page 16)
- Organized “Business and Asset Owners’ Forum” (page 16)
- Published “Excellent & most-improved Integrated Reports” selected by GPIF’s external asset managers (page 17)
- Revised the evaluation criteria of external asset managers (page 18-19)
- Selected and invested in three ESG indices for Japanese equities (page 20)
- Called for Applications for Global Environmental Stock Index (page 21)
- Strengthened collaboration with stakeholders and associated organizations (page 22-23)

Establishment and Revision of Principles and Policies: Investment Principles

■ Revision of Investment Principles

- The Investment Principles were revised on October 2, 2017.
- The following two points were revised under Principle 4.

Amendment 1. The scope of measures aimed at fulfilling stewardship responsibilities was expanded from equity investment to all asset classes.

Amendment 2. As a specific measure related to stewardship responsibilities, a description on ESG was added.

Investment Principles

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

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.**

Establishment and Revision of Principles and Policies: Stewardship Principles

■ Establishment of Stewardship Principles and Proxy Voting Principles

- Stewardship Principles and Proxy Voting Principles were established on June 1, 2017.
- Requirements and principles related to stewardship activities including the exercise of voting rights were clearly presented to asset managers. GPIF fulfills its stewardship responsibilities by appropriately considering ESG factors as a large-scale asset owner and super long-term investor as described in the Stewardship Code.

Stewardship Principles

http://www.gpif.go.jp/en/stewardship_and_esg/pdf/stewardship_principles_and_proxy_voting_principles.pdf

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**

Establishment and Revision of Principles and Policies: Proxy Voting Principles

Proxy Voting Principles

http://www.gpif.go.jp/en/stewardship_and_esg/pdf/stewardship_principles_and_proxy_voting_principles.pdf

[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, and make necessary updates to the policy.

■ Revision of the Policy to Fulfill Stewardship Responsibilities

http://www.gpif.go.jp/en/stewardship_and_esg/pdf/policy_fulfill_stewardship_responsibilities.pdf

- Updated the “Policy to Fulfill Stewardship Responsibilities” on August 1, 2017 to endorse “Japan’s Stewardship Code” revised on May 29, 2017 (Revised Code).

Expansion of the Scope of Assets Subject to ESG Activities

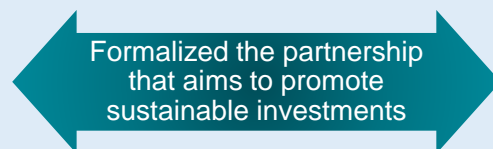
Through the amendment of the Investment Principles in October 2017, GPIF decided to expand the scope of activities to fulfill stewardship responsibilities, which had been focused on equity investment, to cover all assets and specified that ESG factors should be considered in specific activities. GPIF also commenced the following ESG activities for alternative assets and fixed income. A report to measure the effects of ESG activities will be compiled in 2018.

■ Consideration of ESG factors in calling for applications of asset managers for alternative assets

- During the processes for solicitation and selection of external asset managers for alternative assets (private equity, infrastructure, real estate), GPIF assessed external asset managers' efforts to fulfill stewardship responsibilities and address ESG issues.

■ Joint research program with the World Bank Group to incorporate ESG factors in fixed income investments

- On October 12, 2017, GPIF and the World Bank Group formalized a partnership that aims to expand markets for sustainable investing.
- As a first step, GPIF and the World Bank Group will develop a joint research program that will explore practical solutions for integrating sustainability considerations into fixed income portfolios. Potential areas of research include benchmarks, guidelines, rating methodologies, disclosure frameworks, reporting templates and risk correlation for incorporating environmental, social, and governance considerations into fixed income portfolios, including for sovereigns and sustainable bond markets.



WORLD BANK GROUP



Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers

- With regard to communication with external asset managers, GPIF has shifted from one-way annual monitoring to constructive communication through engagement with external asset managers by exchanging views on stewardship responsibilities as stated in the “Report of GPIF’s Stewardship Activities in 2016.”
- Accordingly, GPIF has introduced a new system to hold meetings with external asset managers such as the stewardship meeting and conduct surveys on particular themes as required, in addition to holding an annual assessment meeting.
- In addition to individual meetings, we have conducted briefings for external asset managers to explain GPIF’s new policies or significant amendments. The style of communication has changed to promote exchange of opinions and feedback by providing sufficient explanation on GPIF’s stance including background and views as well as through Q&A and follow-up surveys. In 2017, GPIF conducted three briefings for external asset managers as follows.

<Briefings for external asset managers>

- Report on stewardship activities (February 2017)
Explained the “Report of GPIF’s Stewardship Activities in 2016” with a focus on GPIF’s expectations to its external asset managers in regard to their stewardship activities
- First briefing for external asset managers in 2017 (June 2017)
Explained call for application of asset managers, plans to review assessment methods, establishment of Stewardship Principles and Proxy Voting Principles, and the request for the disclosure of the details of proxy voting records, etc.
- Second briefing for external asset managers in 2017 (November 2017)
Explained the outline of review of assessment methods, the review of performance-linked fee system, and the request for proposals on asset managers’ business models for selecting external asset managers of domestic passive investment, etc.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers (Cont'd)

<Request for disclosure of the proxy voting records>

In the “Proxy Voting Principles” established on June 1, 2017, GPIF has asked its external asset managers to publicly disclose proxy voting records for each investee company on individual proposal items (hereinafter, the “disclosure of the proxy voting records”).

On June 8, 2017, GPIF jointly with other asset owners requested external asset managers of domestic equities to publicly disclose the proxy voting records.

Specifically, (1) GPIF requires its asset managers to disclose the proxy voting records of voting exercised entrusted by GPIF and (2) in line with principles of Japan’s Stewardship Code, GPIF urges its asset managers to disclose the proxy voting records exercised on behalf of all clients excluding GPIF.

Following these requests, GPIF held meetings with some of its asset managers.

(Details of the meetings)

- GPIF explained that disclosing the proxy voting records without delay is very much essential for institutional investors to fulfill their own stewardship responsibilities and that it is expected to provide an opportunity for deepening dialogues between companies and asset managers.
- Asset managers provided explanations and exchanged opinions with regard to the timing and methods for disclosure as well as the methods for disclosing results in cases where voting results are divided, etc.
- In the case of non-disclosure of the proxy voting records, GPIF requested asset managers to provide reasons why they believed public disclosure was not appropriate and to accurately communicate proxy voting records and their rationale directly to the top management of all investee companies for whom they exercised voting rights in order to gain their understanding as an alternative to publicly disclosing the details. GPIF exchanged opinions on public disclosure with SEIRYU Asset Management Ltd. (entrusted to Taiyo Pacific Partners LP). GPIF confirmed with this investor that it would provide explanations on proxy voting policies prior to the exercise of voting rights and feedback after the exercise of voting rights directly to all of its investee companies and engagement as required as an alternative to publicly disclosing the proxy voting records.

Based on these discussions, GPIF mentioned alternative actions in the case of non-disclosure of individual proxy voting records in the “Policy to Fulfill Stewardship Responsibilities” updated as of August 1, 2017.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers (Cont'd)

<Request for disclosure of the details of proxy voting records (Cont'd)>

GPIF's 14 external asset managers publicly disclosed the details of proxy voting records. Out of GPIF's 16 asset managers for domestic equity investment, 15 already announced intention to disclose them publicly. Invesco Asset Management is currently preparing for public disclosure scheduled around May 2018.

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

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ Asset Management One
http://www.am-one.co.jp/company/voting/ ✓ Eastspring Investments
(Eastspring Investments (Singapore) Limited)
http://www.eastspring.co.jp/company/guideline.php ✓ Invesco Asset Management (Japan)
(currently preparing for public disclosure on the following website, scheduled for around May 2018)
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/japan/gsitm/company/stewardship.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 | <ul style="list-style-type: none"> ✓ 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.mufig.jp/houjin/jutaku/about_stewardship.html ✓ Russell Investments Japan
(Russell Investments Implementation Services, LLC.)
https://russellinvestments.com/jp/legal/proxy |
|---|---|

Note: Names in parentheses indicate subcontractors.
URLs are based on information as of December 15, 2017.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers (Cont'd)

<Confirmation of material ESG issues>

- In its Stewardship Principles established on June 1, 2017, GPIF set forth “ESG integration into the investment process.” Based on this, GPIF conducted a survey and interviews with asset managers entrusted with equity investment with regard to their recognition of “material ESG issues.”
- “Material ESG issues” recognized by external asset managers entrusted with domestic equity investment are listed on page 29.
- Based on the results of the survey and interviews, GPIF will confirm how its external asset managers promote engagement activities in the future.
- With the aim of promoting smooth communication between companies and investors, GPIF conducted a survey targeting companies entitled “3d Questionnaire Survey on Stewardship Activities by Institutional Investors” in January 2018 and checked views held by companies on key ESG themes.

<Meetings with third-party committees>

[Outline and objectives]

Amid the development of a framework for conflict of interest management, mainly among Japanese asset managers, including the appointment of independent outside directors, establishment of third-party committees, etc., GPIF conducted a survey on the status of “stewardship activities and the establishment of a third-party committee on proxy voting,” etc. targeting its external asset managers. In addition, GPIF held meetings with the chairs of third-party committees and committee members with a focus on its external asset managers of passive investment.

At each of the meetings, GPIF confirmed if the third-party committee is functioning adequately in order to prevent conflicts of interest and ensure the ongoing prevention of conflicts of interest by its external asset managers.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with external asset managers (Cont'd)

<Meetings with third-party committees (Cont'd)>

[Identified points]

(Scope of recognition and positioning of conflicts of interest)

- It was confirmed that the scope of conflicts of interest, the major rationale for establishing a third-party committee, significantly varies among external asset managers. There were some asset managers whose scope of conflict of interest management was extremely limited, i.e., limited to proxy voting for parent companies and affiliated companies, etc. In addition, some asset managers have established their third-party committee directly below the board of directors with a direct reporting line to the board of directors.

(Structure of third-party committees)

- In all cases of asset managers with a third-party committee, the majority of committee members are comprised of external members such as independent outside directors, independent outside statutory auditors, etc. The selection of committee members reflects the roles of third-party committees of individual asset managers, with some members selected from among former presidents of asset management companies, corporate governance experts, attorneys specializing in M&A, etc.

(Status of operations)

- While we could confirm the outline of actual operations of third-party committees of some asset managers through meetings, etc., there were some asset managers for which the actual operations of their third-party committees were invisible from the outside.

[In cases where a third-party committee has not been established]

With regard to the asset managers that have not established a third-party committee, GPIF checked the reasons for this. Some asset managers conduct audits on the status of proxy voting by using external third-party organizations and report to the board of directors comprised of a majority of independent outside directors instead of establishing a third-party committee.

Since foreign asset managers tend to have independent outside directors and third-party committees in their home countries, it is necessary to confirm the effectiveness of third-party committees located outside Japan and consider measures against GPIF's foreign asset managers entrusted with equity investment.

Reinforcement of Engagement with Relevant Organizations

■ Engagement with index providers

- More than 80% of GPIF's equity holdings are held in passive management funds. In addition, the weight of passive investment has risen even among general investors, which has resulted in a greater impact of equity indices and index providers on capital markets.
- Moreover, GPIF has commenced passive investment based on ESG indices, which have more room to reflect the judgment of ESG evaluation companies and index providers when selecting stocks to be included in indices, unlike the 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 and places an emphasis on that point when selecting ESG indices.
- Amid GPIF's strengthened engagement with index providers, there has been a positive movement among some index providers including active "consultations" with investors, which is aimed 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" with a policy to actively participate in consultations and has engaged in discussion on specific themes. GPIF has also requested its external asset managers to actively participate in consultations and to share the contents of consultations.
- On the other hand, GPIF raised questions with regard to the actual decision-making processes of consultations based on the fact that the methods for selecting asset managers subject to interviews, names and numbers of such asset managers, the results of the interviews, etc. have not been disclosed, and with regard to what kind processes are used to reflect the results of consultations on final decisions, etc.

Other Recent Actions

■ Survey of the JPX-Nikkei Index 400 companies

- GPIF conducted its first survey of listed 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).
- The second survey was conducted targeting companies constituting the JPX-Nikkei Index 400 between February and March 2017, and 272 companies, or 68% of the Index, responded. Out of companies that responded that they have observed a change in institutional investors since the first survey, a majority of them responded that there was a favorable change. Nearly 75% of companies have already prepared, will prepare, or are considering preparation of integrated reports. The results of the survey are available on the following website:
http://www.gpif.go.jp/en/stewardship_and_esg/pdf/summary_report_of_the_2nd_survey.pdf
- From the third survey that was conducted in January 2018, the target was expanded to companies listed on TSE’s first section with the aim of gaining direct feedback from a wider range of companies.

■ Businesses and Asset Owners’ Forum

- The forum was established based on a proposal for the formation of a “platform for continuous and constructive exchange of opinions between GPIF, as an asset owner, and companies,” received from several companies including OMRON Corporation, Eisai Co., Ltd., and Nissan Motor Co., Ltd. The first forum was held in September 2016.
- The forum is participated in by a total of 10 companies including three lead organizer companies and five asset owners as of October 2017.
[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 second forum held in April 2017, discussions and exchanges of opinions were focused on the exercise of voting rights (clarification of asset owner’s views, prevention of formal judgment), disclosure on ESG, SDGs, etc. At the third forum held in October 2017, discussions and exchanges of opinions were concentrated on the implementation of ESG, SDGs., individual disclosure of the proxy voting records, engagement and requests to investors, etc.
- The outline of the discussions are available on the following website: http://www.gpif.go.jp/en/stewardship_and_esg/business_assetowners_forum.html and feedback has been provided to GPIF’s external asset managers and overseas asset owners.

Other Recent Actions (Cont'd)

■ Excellent integrated reports and most-improved integrated reports selected by 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 of domestic equities to nominate companies that have created excellent integrated reports since 2016, with the aim of encouraging companies to enhance or start creating integrated reports and urging investors to utilize them. For the second year, GPIF requested asset managers to each nominate up to 10 companies that have created “excellent integrated reports” and “most-improved integrated reports” in December 2017. GPIF compiled the results and announced them in January 2018.
- In response to the publication of the list, we received feedback from companies about positive effects, such as “heightened attention to the integrated reports from management,” “strengthened cooperation among persons and departments concerned in the company,” “awareness of importance of the integrated reports to the company,” and “PR effects to parties outside the company through company website and social media.”

○ Excellent integrated reports

GPIF's 16 external asset managers of domestic equities named a total of 70 companies as having created “excellent integrated reports.” The following five companies were the most nominated by the respondents as publishers of “excellent integrated reports.”

Ajinomoto Co., Inc.

In the top message, major management indicators are clearly explained in connection with financial (economic value) and non-financial (social value) factors and the report presents a clear-cut scenario for integrating both factors to create brand value. Concepts and concrete examples are given in a well-balanced manner. The company adopts a number of proprietary KPIs, which testifies to its earnest commitment.

Konica Minolta, Inc.

The report discusses the company's transformation into a “digital company with insight into implicit challenges” by presenting numerical targets along with environmental plans. Business plans are well coordinated with ESG initiatives. The roles of directors who are not executive officers are clearly defined.

OMRON Corporation

Both financial and sustainability goals are indicated for each business segment, along with their relevance to SDGs. Management KPIs are clearly presented, allowing readers to easily see the progress status. The “Step Forward in Compensation Governance” section efficiently explains how sustainability evaluation is incorporated into the directors' compensation structure. The company's integrated report has received assurance by third parties, a factor highly valued by global ESG rating agencies.

ITOCHU Corporation

The long-term vision upheld by the company's top management is clearly conveyed. The report elaborates, in an easy-to-understand manner, on the process for creating added value, as well as business models and non-financial capital, for the sustainable expansion of corporate value. The company is one of the first Japanese companies to disclose the method used for the calculation of directors' remuneration.

MARUI GROUP CO., LTD.

The company's integrated report exclusively focuses on getting across the message it aims to convey about its co-creation management, and is configured with a focus on readability, which is of a level that serves as a good reference for others. The report elaborates in detail on the transition and structure of the company's business models and inclusion-oriented management by drawing on many concrete examples.

○ Most-improved integrated reports

GPIF's 16 external asset managers of domestic equities named a total of 68 companies as having created the “most-improved integrated reports.” The following four companies were the most nominated by the respondents as publishers of “most-improved integrated reports.”

Daiei House Industry Co., Ltd.

The auditors' dialogue presents an informative discussion on how the top management team's intentions are disseminated across the front line of business. The risk management for investments in real estate development is also a crucial piece of disclosed information in making investment decisions. The CSR self-assessment is interesting.

Sumitomo Metal Mining Co., Ltd.

The integrated report's newly formulated section on SMM Group's risks and opportunities facilitates incorporation of ESG factors into corporate value assessment from the perspectives of future earnings growth and decrease in risk premium. The company aims to make use of feedback in its business management. The section on risks and opportunities has expanded immensely this year.

OMRON Corporation

The company's report is apparently evolving every year. A detailed description on the evolution of its compensation structure for directors and executive officers was newly added. The four focus domains where needs emerge the most are specified, and in each domain, issues identified are linked to ultimate financial targets.

Sumitomo Corporation

The company shifted from an annual report to an integrated report in 2017. Its report was highly rated for laying out the company's Six Material Issues to Achieve Sustainable Growth with Society and their selection process. The process for identifying the material issues was highly convincing. The report pronounces the company's initiative to formulate strategies and make decisions by positioning its material issues as the starting point and decision criteria.

http://www.gpif.go.jp/en/stewardship_and_esg/pdf/excellent_and_most_improved_integrated_reports_2017.pdf

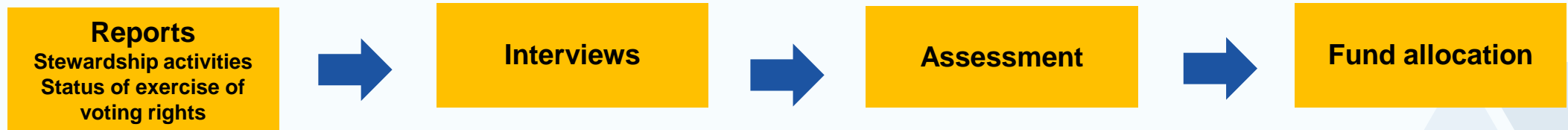
Other Recent Actions (Cont'd)

■ Review of the assessment criteria of external asset managers

<Review of the weighting in assessment of efforts to fulfill stewardship responsibilities>

- Approximately 90% of GPIF's domestic equity holdings are held in passive management funds covering a broad range of listed companies. It is essential to have medium- and long-term growth in the overall equity market in order to improve investment returns. Therefore, we believe it is important to conduct engagement activities for passive management funds in order to improve corporate value and achieve sustainable growth of the relevant investee companies from a medium- and long-term perspective.
- As pointed out in "Summary Report of GPIF's Stewardship Activities in 2016," the importance of stewardship activities has increased as seen in GPIF's expectations for its external asset managers to promote stewardship activities and GPIF's requests to its external asset managers focused on passive investment, in particular, to propose business models, etc. Therefore, external asset managers that fulfill stewardship responsibilities will receive a high assessment.
- Starting from 2017, the weight of "activities pertaining to stewardship responsibilities" of external asset managers entrusted with passive investment of domestic equities was raised from 30% in the qualitative assessment to 30% in the overall assessment. At the same time, the weight of external asset managers entrusted with active investment of domestic equities was raised from 10% in the qualitative assessment to 10% in the overall assessment.
- Furthermore, given the fact that over 80% of GPIF's foreign equity holdings are held in passive management funds as well, it is essential to boost overall markets by strengthening stewardship activities as in the case of domestic equities. Therefore, external asset managers that fulfill stewardship responsibilities will receive a high assessment.
- Starting from 2017, the weight of "activities pertaining to stewardship responsibilities" of external asset managers entrusted with passive investment of foreign equities was raised significantly from 10% in the qualitative assessment to 30% in the overall assessment. At the same time, the weight of external asset managers entrusted with active investment of foreign equities was raised from 10% in the qualitative assessment to 10% in the overall assessment.
- The above-mentioned new assessment standards started being used in the assessment in 2017, and the results will be reflected in the allocation of funds in the following year.

(Reference) Flow of Assessment of External Asset Managers



■ Assessment of “Activities Pertaining to Stewardship Responsibilities”

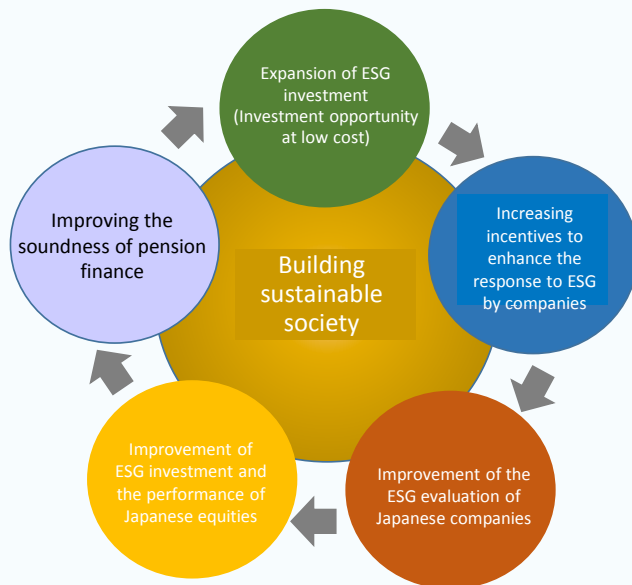
- Stewardship responsibilities are assessed as an evaluation item in the assessment.
- In conducting assessment, GPIF received reports from external asset managers of domestic equities (16 managers) and external asset managers of foreign equities (16 managers) on the status of their stewardship activities and exercise of voting rights, and carried out interviews between September and October for domestic equities and between December and January for foreign equities.
- Based on such reports and interviews, GPIF checked the frameworks (organizations, conflicts of interest management), the status regarding adoption of Japan's Stewardship Code, the status regarding signing and responses to the Principles for Responsible Investment (PRI), stewardship activities (policy, status of efforts, implementation of engagement), the status of efforts for ESG issues, the status regarding exercise of voting rights (topics, cases where judgments were divided among external asset managers, process of deciding on judgments on exercising shareholder proposals, etc.), and the status of response to GPIF's Stewardship Principles and Proxy Voting Principles in disclosing the details of proxy voting records, etc., and also exchanged opinions on how external asset managers worked on stewardship activities. GPIF also made an assessment by utilizing information obtained from external providers.
- In addition to the above, GPIF requested external asset managers of domestic equities to nominate “excellent integrated reports” and “most-improved integrated reports,” and checked points of focus and differences from other companies, etc.
- As a new request, GPIF also asked external asset managers entrusted with equity investment to list material ESG issues.
- In case where concerns about governance of external asset managers, such as conflicts of interest, were acknowledged through reports and interviews, GPIF communicated its concerns and effected engagement by utilizing various opportunities, such as meetings, aiming to alleviate such concerns.

Other Recent Actions (Cont'd)

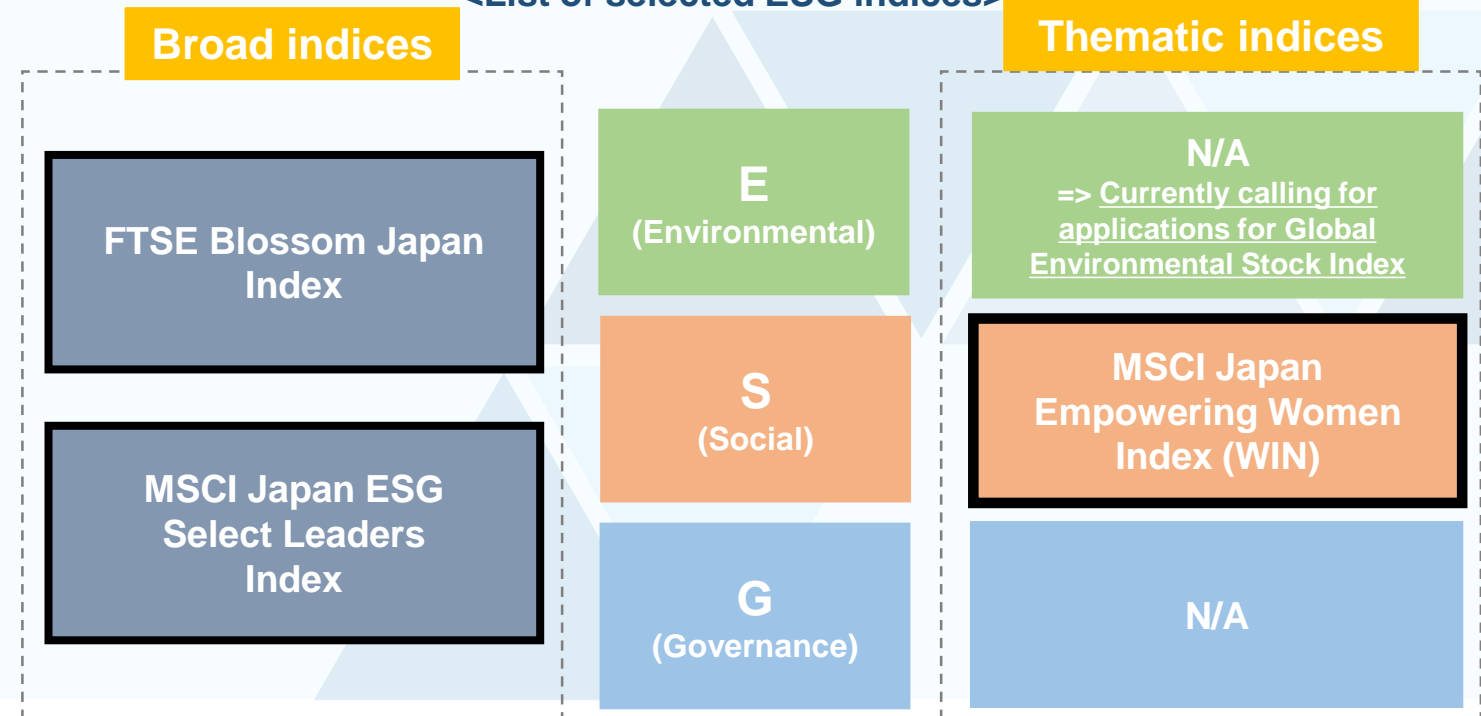
Selected ESG indices for Japanese equities and commenced investment

- GPIF selected three ESG indices for Japanese equities on July 3, 2017 (application period: July 22 – September 30, 2016; number of proposals: 27 indices by 14 companies).
 - GPIF commenced passive investment tracking those indices with a portfolio value of approx. 1 trillion yen in total.
 - Investment heeding ESG (Environmental, Social and Governance) factors is expected to enhance risk-adjusted return over the longer term. The following three points were emphasized in choosing the ESG indices.
- (1) “Positive screening” that determines constituent companies based on their ESG evaluation should be adopted.
 - (2) The evaluation should be based on public information and its method and results should be disclosed.
 - (3) ESG research companies and index providers should be properly governed and their conflicts of interest should be properly managed.

<Virtuous cycle brought by the expansion of ESG investment>



<List of selected ESG indices>



Other Recent Actions (Cont'd)

■ Called for application for Global Environmental Stock Index

- GPIF has promoted environmental, social and governance investment for the purpose of improving long-term portfolio returns by reducing negative impacts of corporate activities on the environment and society. Following the previous call for proposals concerning ESG indices associated with domestic equities in 2017, GPIF selected three ESG indices but decided to put on hold the selection of an environmental index.
- The majority of existing environmental stock indices seek to compile low-carbon portfolios by excluding specific industries. Consequently, few indices aim to build a green economy by undertaking across-the-board evaluations of companies that contribute to a sustainable environment.
- Therefore, we decided to request proposals for global environmental stock indices.
- GPIF's call for applications for the environmental index for global equities is grounded in the view that environmental issues such as climate change represent an important ESG factor as well as a cross-border challenge.
- The application period was between November 1, 2017 and January 31, 2018.
- Requirements for submission were as follows.
 - i. Considering that environmental issues including climate change constitute global challenges, applicants should propose two indices based on the same concept, one for (i) international equities (excluding Japanese equities) and one for (ii) Japanese equities. For the purpose of comparative analysis, it is desirable that an additional index consisting of global equities (including Japanese equities) also be submitted.
 - ii. The indices should be based on the concept of encouraging companies to seek the solution of environmental issues, rather than uniformly excluding companies in specific industries or types of businesses (so-called negative screening).
 - iii. The indices should provide the same level of returns as their capitalization-weighted index (parent index) and improve their risk-adjusted return in the long run. This should be proven through past performance and back testing.
 - iv. The indices should include equities selected based solely on ESG factors, focusing on the environment.
 - v. The evaluation methodology should be highly objective, neutral and transparent.
 - vi. Data necessary for passive investment should be disclosed appropriately.
 - vii. The indices should avoid bias toward any specific company, business styles, etc.
 - viii. The indices should have a capacity for considerable investment.

GPIF expects innovative ideas based on the abundant expertise of applicants in terms of evaluation and index construction methodology. For example, GPIF expects applicants to propose indices that may help lift overall stock markets both in Japan and worldwide, such as those that evaluate the amount of carbon dioxide emissions from corporate activities as well as the degree of improvement, those that acknowledge companies contributing to the transition to a low-carbon economy among the same industry and/or the same type of business, and those that promote disclosure of environment-related companies.

Other Recent Actions (Cont'd)

■ Strengthened collaboration with stakeholders and relevant organizations

<Collaboration with stakeholders>

July 2017: Presentations, etc. at the ESG Investment Forum (sponsored by Keidanren, Japanese Trade Union Confederation, Japan Association of Corporate Executives, Japan Chamber of Commerce and Industry, Japan Exchange Group, Inc./Tokyo Stock Exchange, Inc.)

July 2017: Presentations “Global Trend on ESG and GPIF’s ESG Activities” at the Sub-committee on Capital Markets, Committee on Finance and Accounting (Keidanren)

September 2017: Presentations “For the Realization of a Sustainable Society” at the Symposium on Responsible Investment through Labor-Management Collaboration (Japanese Trade Union Confederation)

November 2017: Presentations “GPIF’s Views on ESG Investment: MSCI Japan Empowering Women Index (WIN) as a Major Example” at the Sub-committee on Planning, Committee on Gender Diversity (Keidanren)

December 2017: Participated in the panel discussion at the Charter of Corporate Behavior Symposium (Keidanren)

<Collaboration with global asset owners>



[Global Asset Owners’ Forum] http://www.gpif.go.jp/operation/pdf/summary2ndGlobalAssetOwnersForum_ja.pdf

- The forum was established with the aim of creating a platform for mutual utilization of knowledge and continuous exchange of opinions among international public pension funds, etc. in order to further fulfill stewardship responsibilities. The 1st 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 November 2017):
 U.S.: Florida State Board of Administration, State of Wisconsin Investment Board, Regents of the University of California, and The World Bank Treasury
 Canada: bcIMC, OTPP and OMERS
 Europe: NBIM, APG, PGGM, AP2, ERAFP and USS
 Australia: HESTA
- The 2nd Global Asset Owners’ Forum was convened in California, the U.S. in May 2017. The discussion was focused on the sharing of best practices aimed at the alignment of interests between asset owners and asset managers, necessity of sharing knowledge and experiences with regard to ESG issues, shared use of legal network and research studies, etc. The outline of the forum was disclosed. The 3rd Global Asset Owners’ Forum was convened in Tokyo in November 2017. The outline of the forum will be subsequently disclosed.

Other Recent Actions (Cont'd)

■ Strengthened collaboration with stakeholders and relevant organizations (Cont'd)

<Collaboration with international organizations>

September 2015: Signed Principles for Responsible Investment (PRI)

November 2016: Joined the 30% Club (U.K.) and the Thirty Percent Coalition (U.S.)

October 2017: Formalized a partnership with the World Bank Group to promote sustainable investments

<Attended meetings organized by ministries>

Ministry of Foreign Affairs

- The Round Table for Promoting Implementation of Sustainable Development Goals (SDGs) –Attended by President Takahashi as a member

Ministry of Economy, Trade and Industry

- Study Group on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth –Participated in by Executive Managing Director Mizuno as a committee member (until October 2017)
- Issuance of the “Report on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth” (October 26, 2017)

Ministry of the Environment

- ESG Finance Council –Attended by Executive Managing Director Mizuno as a member (since January 2018)

<Presentations, etc. at various seminars and international conferences (summary of events since the previous report)>

February 2017: Asian Financial Forum

February 2017: Council of Institutional Investors (CII) Winter 2017 Conference

April 2017: SDG Dialogue - Global Companies & 2030 Agenda

May 2017: Milken Institute Global Conference 2017

September 2017: PRI in Person Berlin 2017

October 2017: APEC Top Management Forum

October 2017: OECD Green Investment Financing Forum

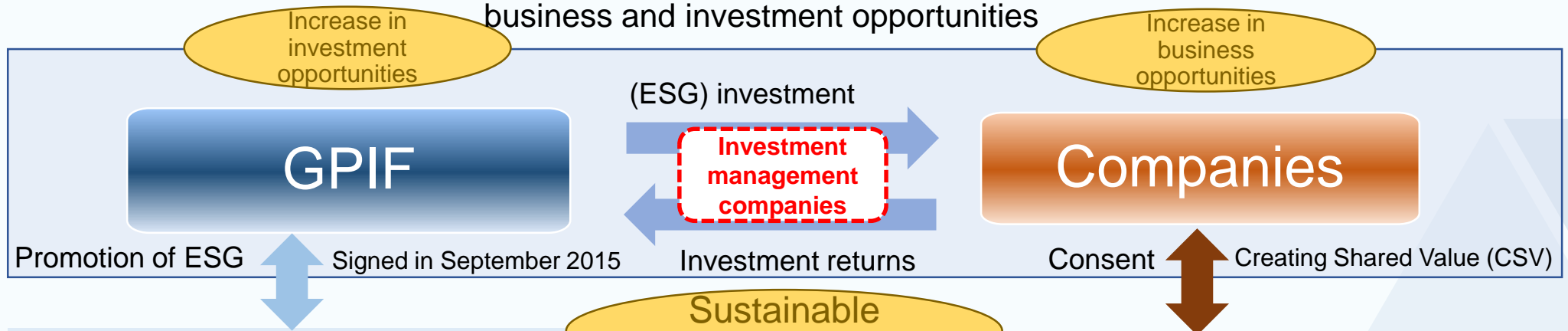
December 2017: Securities and Exchange Surveillance Commission 25th Anniversary International Conference

December 2017: Paris 2017 Climate Finance Day

December 2017: IR Conference 2017

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

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



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 efforts

Executive Managing Director Mizuno was appointed as a member of the Asset Owner Advisory Committee (in January 2016).
Executive Managing Director Mizuno assumed the position of PRI board member (in January 2017).



SUSTAINABLE DEVELOPMENT GOALS

世界を変えるための17の目標



GPIF's efforts

President Takahashi 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>

- ❑ Greater efforts have been made, mainly by external asset managers entrusted with passive investment of domestic and foreign equities, toward establishing a designated department or committees in charge of the management of stewardship activities. We have also witnessed full-fledged efforts toward stewardship activities and more organized efforts throughout the year.
- ❑ It seems that some external asset managers (including some subcontracted external asset managers) have not made sufficient efforts to inculcate GPIF's Stewardship Principles within their organization.
- ❑ While engagement activities have also been implemented by external asset managers entrusted with active investment, their definition and contents vary depending on organizational structures and investment styles. There are some external asset managers that have a designated department in charge of the management of stewardship activities including engagement activities while others don't have a designated department. It is necessary to confirm the methods for evaluating the internal integration and stewardship activities in the former case and the methods for evaluating fund managers' commitment and leadership for more organized activities and stewardship activities in the latter case.
- ❑ All external asset managers entrusted with domestic equity investment answered that they have taken measures for ESG issues. While more measures have been taken for "E" and "S" issues compared to the past, we cannot deny that the overall focus has been on "G" issues and the execution of voting rights. Meanwhile, some external asset managers entrusted with both passive and active investment of foreign equities have been taking measures for environmental and social issues as well as governance issues, indicating differences in their efforts.
- ❑ As stated in the "Report of GPIF's Stewardship Activities in 2016," we believe that integrated reports as well as 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, it seems that there are differences among external asset managers as to how integrated reports are utilized in particular.

<Exercising of Voting Rights>

- ❑ There were doubtful cases in which it seemed voting rights had been exercised automatically based on external standards and the recommendations provided by voting advisory firms, etc. Depending on the circumstances, positive assessment is made of companies that exercise their voting rights not pursuant to voting policies but by reflecting corporate initiatives or actual situations as a result of engagement. As we consider voting along with engagement, companies are expected to take measures that will contribute to enhancing long-term corporate value.
- ❑ Some external asset managers entrusted with domestic equity investment made efforts to raise flags regarding investees with potential conflicts of interest such as business partners of a different division, etc. when disclosing the results of exercising individual voting rights.
- ❑ While some external asset managers entrusted with domestic equity investment have introduced more stringent voting policies based on consultations with the third-party committee, others reviewed their voting policies immediately following the general meeting of shareholders or disclosed policies well ahead of the schedule to be prepared for corporate engagement.
- ❑ With regard to voting instruction errors and administrative errors made by asset management companies, we have requested asset management/administration companies to take appropriate measures in light of the importance of exercising voting rights.

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

Situation for
2017

Situation for
2016

Situation for
2015

- At external Japanese asset managers entrusted with equity investment, 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 as well as the separation of corporate lending operations. In addition, all external Japanese asset managers entrusted with equity investment have established 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.
- Meanwhile, it was revealed that some external foreign asset managers had no organizational segregation or no scheme to prevent conflicts of interest, indicating that the predominance of external foreign asset managers has no solid basis in reality. In addition, we could not confirm the appropriateness of their remuneration system for directors, officers and employees.
- It was confirmed that conflicts of interest have been managed in voting and voting guidelines have been established from the perspective of formality.
- While some external Japanese asset managers entrusted with equity investment made significant progress in managing conflicts of interest through the election of independent outside directors, establishment of a third-party committee comprised mainly of outside directors, and the preparation and publishing of a new conflict of interest policy, others lagged in such efforts.
- We suspected that some external asset managers had made insufficient efforts in managing conflicts of interest or that fiduciary responsibilities had not had top priority in their voting guidelines.
- There were some cases among external asset managers affiliated with some financial institution groups where organizational measures had not been taken to address concerns over conflicts of interest with parent companies, etc. and where there had been some doubts over the governance of external asset managers themselves.

[Remaining issues]

- ✓ Governance of external foreign asset managers, establishment of a system to prevent conflicts of interest with a parent company, etc., ensuring transparency of the system
- ✓ While there has been progress in the establishment of third-party committees, it is difficult to grasp the status regarding the holding of committee meetings and “there were cases where the targets subject to the management of conflicts of interest are extremely limited.” As the involvement in voting varies largely depending on external 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.

Engagement by Passive Managers and Proper Exercise of Voting Rights

Situation for
2017

Situation for
2016

Situation for
2015

- All external asset managers entrusted with passive investment of domestic 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.
- Some external asset managers entrusted with passive investment of domestic equities started dialogues in accordance with the engagement enhancement plan and policies as stated in the situation for 2016. There have been cases of engagement by utilizing external and proprietary data on ESG.
- With regard to the “new business models proposed by external asset managers of passive investment in accordance with the needs of asset owners who are focused on stewardship activities,” which was pointed out as an issue in the “Summary Report of GPIF’s Stewardship Activities in 2016,” there was no progress during 2017 and we have once again been soliciting such models, along with the public solicitation of external asset managers entrusted with passive investment of domestic equities.
- While improvements have been made for screening criteria, etc. when making decisions for exercising voting rights in passive management of foreign equities, there were asset managers for which continued improvement would be required as well as asset managers that seemed in actual fact to have implemented almost no engagement activities.
- Some external asset managers entrusted with passive investment of domestic equities developed or enhanced their systems by nominating a designated person in charge of engagement activities from the perspective of enhancing long-term corporate value in collaboration with the top management of the companies. In addition, some asset managers checked the appropriateness of voting through the third-party committee.
- Some external asset managers entrusted with passive investment of domestic equities announced that they would increase the number of target companies for engagement activities to approximately 900, while others clarified the selection criteria and procedures and added some companies that had not been covered by investment research analysts for active investing into the scope of engagement activities.
- While there had been a tendency wherein engagement activities with investee companies were implemented even before the introduction of the Stewardship Code among external asset managers entrusted with active investment, selection criteria and the establishment of systems have been insufficient among external asset managers entrusted with passive investment.

[Remaining issues]

- ✓ **Proposal of new business models by external asset managers entrusted with passive investment in accordance with the needs of asset owners who are focused on stewardship activities**
- ✓ **Evaluation of stewardship activities among external asset managers**
- ✓ **Some external asset managers entrusted with passive investment of foreign equities do not have sufficient resources for voting and engagement activities**

Critical ESG Issues

- 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 external asset managers entrusted with domestic equity investment.
- It was revealed that external asset managers entrusted with passive investment that hold investees' stocks as long as they are included in indices tend to recognize long-term issues such as "E" and "S" as material ESG issues while external asset managers entrusted with active investment with primary holding periods of approximately several months to a few years tend to recognize "G" issues as material ESG issues.
- While we consider that it is reasonable to recognize different ESG issues as material issues depending on the expected holding periods, GPIF, which has a focus on super long-term investing, has a policy to call for a certain level of consideration and measures to address environmental and social issues (attitude to support measures taken by asset managers entrusted with passive investment) to be taken by its external asset managers entrusted with active investment.

Situation for
2017

<Material ESG issues recognized by asset managers entrusted with passive investment>

Climate change
Diversity
Misconduct/Scandals
Capital efficiency
Supply chain
Disclosure
Protection of minority interests (cross shareholding, etc.)

<Material ESG issues recognized by asset managers entrusted with active investment>

Capital efficiency
Protection of minority interests (cross shareholding, etc.)
Corporate Governance
Structure and evaluation of Board of directors

Notes: Asset managers entrusted with both passive and active investment were counted as asset managers entrusted with passive investment
Issues listed by all asset managers are marked **in red**
The lists include issues listed by more than 5 out of 6 asset managers entrusted with passive investment as well as issues listed by more than 8 out of 10 asset managers entrusted with active investment

Situation for
2016

- While all external asset managers entrusted with domestic equity investment responded that they have taken measures to address ESG issues, in many cases such measures have not been included in actual engagement activities and the main focus has been on the consideration of "G" issues and exercise of voting rights.

[Remaining issues]

- ✓ Formulation and implementation of engagement policy and plans related to material ESG issues pointed out by external asset managers entrusted with domestic equity investment

(Interviews on material ESG issues are currently being conducted with external asset managers entrusted with foreign equity investment)

3. Expectations & Challenges for External Asset Managers and GPIF's Action Plans going forward



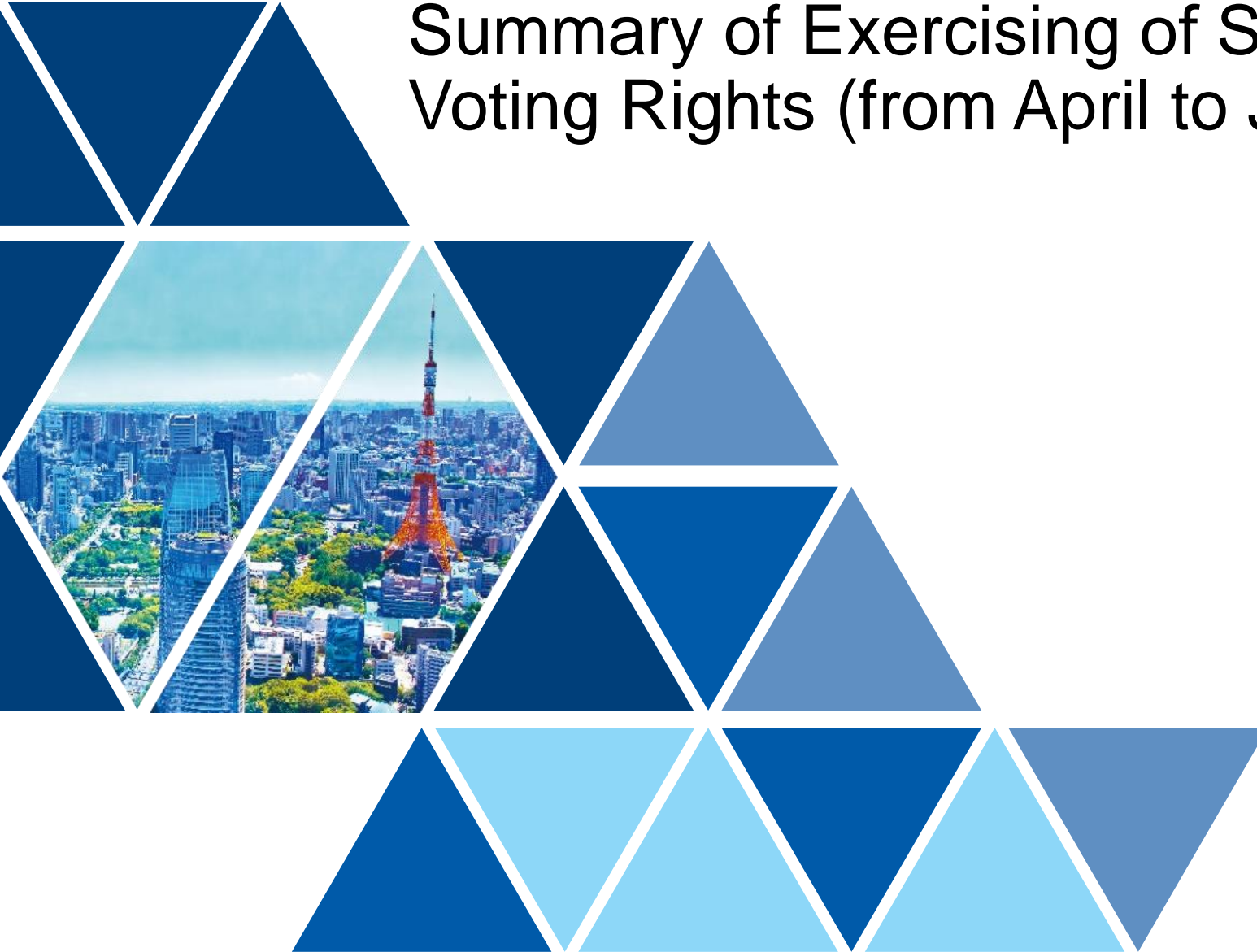
Expectations and Challenges for External Asset Managers

- ✓ **Integrate GPIF's Stewardship Principles and Proxy Voting Principles among asset managers' operations at all the levels throughout their organizations**
- ✓ **Enhance the governance of asset managers and effectiveness of measures to prevent conflicts of interest**
 - Targets subject to conflicts of interest
 - Positioning and roles of the Third Party Committee
- ✓ **Propose business models for "new passive investment" to reflect GPIF's Stewardship Principles**
 - Measure the effects of stewardship activities appropriately
 - Establish the assessment criteria for stewardship activities
 - Formulate action plans for engagement
- ✓ **ESG integration across different investment styles**
 - Effective ESG integration in light of the size of companies and industry characteristics
 - Further utilization of non-financial information such as integrated reports, etc.
 - Engagement on critical ESG issues
- ✓ **Suitable compensation scheme for executives and employees at external asset managers not to promote the short-termism**

GPIF's Action Plans going forward

- ✓ **"Enhance engagement" with asset managers**
 - Acknowledge compliance status of GPIF's Stewardship Principles
 - Confirm the effectiveness of governance and measures to prevent conflicts of interest by using case studies, etc. (when the independence of asset management business is not explicit such as in the case of some non-Japanese asset managers, etc.)
 - Confirm action plans for engagement and working on critical ESG issues
- ✓ **Consider possible joint engagement by asset owners with external asset managers**
- ✓ **Examine evaluation criteria and fee structure in line with business models of "new passive investment" in the era of stewardship**
 - Utilize discussions at PRI's Passive Investment Working Group
 - Consider using external consulting firms
- ✓ **Improve our evaluation methods for ESG integration (including engagement) by asset managers**
 - Utilize discussions at PRI's SDGs Advisory Committee and the Global Asset Owners' Forum
- ✓ **Analyze the compensation scheme for executives and employees at external asset managers**
 - Consider possible hire of an HR consulting firm to examine whether their compensation scheme is designed to increase long-term returns

Summary of Exercising of Shareholders' Voting Rights (from April to June 2017)



1. Domestic Equities

11 passive investment funds managed by external asset managers and 14 active investment funds managed by external asset managers (25 funds in total)

(1) Summary

- All of the external asset managers exercised their voting rights.
- Compared to the previous year, the number of proposals decreased on agendas, including “Appointment of Directors,” “Appointment of Statutory Auditors,” and “Proposals pertaining to Director remuneration, etc.” The total number of proposals declined significantly as the number of proposals increased only for “Mergers, transfer of business, company split, etc.” and “Other proposals.”
- Regarding management proposals, the item with the largest number of opposition votes was “Appointment of Directors,” and those with a higher rate of disapproval were “Poison Pills,” “Granting of Director retirement bonuses,” and “Appointment of Outside Statutory Auditors.”

(2) Proposals related to company organization

- The number of proposals for “Appointment of Corporate Auditors” decreased significantly compared to the previous year. This seems to be attributable to the effects of the transition to the model of company with audit and supervisory committee in the past few years.
- 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 increased significantly compared to the previous year. This was due to the results of the consolidation of shares as well as the change in the share trading unit 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,” there was decrease in the number of proposals from the previous year. The number of proposals increased in the previous year because there were many companies that newly employed outside directors and there were many proposals for changes to the articles of incorporation in association with directors’ exemption from liability, for which the scope of application had expanded following amendments to the Companies Act (effective on May 1, 2015). This year, 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 about ensuring corporate value and shareholder value or about 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

6 passive investment funds managed by external asset managers and 12 active investment funds managed by external asset managers (18 funds in total)

(1) Summary

- All of the external asset managers exercised their voting rights.
- The total number of proposals increased slightly.
- Regarding proposals by company, the item with the largest number of opposition was “Appointment of Directors,” and those with a higher rate of opposition were “Poison Pills” and “Director retirement bonuses” as well as “Granting of stock options.”

(2) Countries in which voting rights were exercised

- Eleven 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 shareblocking 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 managers. 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 use of third-party judgments, in addition to making use of professional competence.

FY2017 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2017)

1. Domestic equities

(1) Exercise of voting rights by external asset managers

All external managers (25 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		114,457	30,212	11,451	7,629	220	3,122	1,399	1,101	681	9,333	1	1,908	5,157	787	0	144	149,761
Management proposals	Total	114,205	30,128	11,389	7,581	220	3,122	1,399	1,101	681	9,269	0	1,908	3,407	787	0	137	147,625
		(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	105,341	26,743	9,895	6,176	218	2,916	1,285	550	584	8,914	0	1,881	3,276	159	0	115	135,134
		(92.2%)	(88.8%)	(86.9%)	(81.5%)	(99.1%)	(93.4%)	(91.9%)	(50.0%)	(85.8%)	(96.2%)	(0.0%)	(98.6%)	(96.2%)	(20.2%)	(0.0%)	(83.9%)	(91.5%)
	Opposed	8,864	3,385	1,494	1,405	2	206	114	551	97	355	0	27	131	628	0	22	12,491
		(7.8%)	(11.2%)	(13.1%)	(18.5%)	(0.9%)	(6.6%)	(8.1%)	(50.0%)	(14.2%)	(3.8%)	(0.0%)	(1.4%)	(3.8%)	(79.8%)	(0.0%)	(16.1%)	(8.5%)
Shareholder proposals	Total	252	84	62	48	0	0	0	0	0	64	1	0	1,750	0	0	7	2,136
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	3	2	0	0	0	0	0	0	0	14	1	0	149	0	0	0	167
		(1.2%)	(2.4%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(21.9%)	(100.0%)	(0.0%)	(8.5%)	(0.0%)	(0.0%)	(0.0%)	(7.8%)
	Opposed	249	82	62	48	0	0	0	0	0	50	0	0	1,601	0	0	7	1,969
		(98.8%)	(97.6%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(78.1%)	(0.0%)	(0.0%)	(91.5%)	(0.0%)	(0.0%)	(100.0%)	(92.2%)

Notes:

Figures in parentheses represent percentages for each proposal. The total of percentages 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.

FY2017 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2017)

2. Foreign equities

(1) Exercise of voting rights by external asset managers

All external asset managers (18 funds) exercised their voting rights.

Country of exercise	1. All countries invested in	7 funds	(38.9%)
	2. Some countries invested in	11 funds	(61.1%)

(Note) Figures in parentheses show the ratio to the total (18 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/statutory report	Other proposals	
Total number of voting rights exercised		67,140	2,294	8,718	16,599	240	154	2,990	6,021	3,276	8,401	4,610	237	8,715	27,230	156,625
Management proposals	Total	65,956	1,893	8,614	16,399	240	153	2,965	5,999	3,276	8,321	4,036	223	8,715	23,304	150,094
		(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	61,154	1,487	8,479	14,264	209	107	2,177	5,959	2,988	7,088	3,744	117	8,610	20,635	137,018
		(92.7%)	(78.6%)	(98.4%)	(87.0%)	(87.1%)	(69.9%)	(73.4%)	(99.3%)	(91.2%)	(85.2%)	(92.8%)	(52.5%)	(98.8%)	(88.5%)	(91.3%)
	Opposed	4,802	406	135	2,135	31	46	788	40	288	1,233	292	106	105	2,669	13,076
		(7.3%)	(21.4%)	(1.6%)	(13.0%)	(12.9%)	(30.1%)	(26.6%)	(0.7%)	(8.8%)	(14.8%)	(7.2%)	(47.5%)	(1.2%)	(11.5%)	(8.7%)
Shareholder proposals	Total	1,184	401	104	200	0	1	25	22	0	80	574	14	0	3,926	6,531
		(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	730	257	82	54	0	0	10	6	0	64	372	14	0	1,706	3,295
		(61.7%)	(64.1%)	(78.8%)	(27.0%)	(0.0%)	(0.0%)	(40.0%)	(27.3%)	(0.0%)	(80.0%)	(64.8%)	(100.0%)	(0.0%)	(43.5%)	(50.5%)
	Opposed	454	144	22	146	0	1	15	16	0	16	202	0	0	2,220	3,236
		(38.3%)	(35.9%)	(21.2%)	(73.0%)	(0.0%)	(100.0%)	(60.0%)	(72.7%)	(0.0%)	(20.0%)	(35.2%)	(0.0%)	(0.0%)	(56.5%)	(49.5%)

Notes:

Figures in parentheses represent percentages to total proposals. The total of percentages may not add up to 100 due to rounding.

"Opposed" figures include 93 abstentions.

FY2017 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2017)

Voting Rights Exercised: Comparison by Fiscal Year (April–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
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
		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%
	Voting for shareholder proposals	15	38	48	89	57	41	76	37	42	47	34	58	34	56	55	65	167
		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%
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
		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%
	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
		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%



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