

## **Government Pension Investment Fund**

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### **Summary Report of GPIF's Stewardship Activities in 2016**

Government Pension Investment Fund ("GPIF") is publishing the report on its stewardship activities in 2016 and status of exercise of shareholder voting rights by its asset managers on behalf of GPIF (from April to June, 2016) as attached.

#### ✓ 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" (designed as a 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) between its external 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's Priorities on Stewardship Responsibilities

- Build a win-win environment in the investment chain
- Promote external asset managers to fulfill stewardship responsibilities and improve their own governance
- Consider environment, social and governance (ESG) in investment decision

#### ✓ Stewardship Activities by GPIF's External Asset Managers of Domestic Equities

##### (1) Status of GPIF's External Asset Managers of Domestic Equities

- All external asset managers have set up or reinforced departments or committees dedicated to oversee stewardship activities and stepped up their efforts to throughout a year's continuous organization-wide stewardship activities, from merely exercising voting rights.
- They all conduct engagement activities, but definitions and contents of activities differ among them, depending on the organizations and investment styles adopted. Some asset managers mentioned about interviews with outside directors as an additional effort.
- They all positively responded about ESG integration, but only a few of them have meaningfully used ESG in actual engagement. In most of the cases, asset managers only give consideration to stewardship activities in terms of G (governance) issues and exercise of voting rights, while their efforts are less than sufficient for engagement activities for E (environmental) and S (social) issues.
- Some cases were observed voting rights were exercised by solely depending on proxy advisors or just following formality.

(2) **Follow-up to the Issues Pointed out in “Summary Report of GPIF's Stewardship Activities in 2015”**

**a. Governance of external asset managers and conflicts of interest with their parent companies, etc.**

- All of our asset managers have introduced independent directors, however, there remains a need to ensure independence in the board of directors. In addition, organizations were polarized between those which had made a big improvement as establishing a third-party committee comprising mainly of outside directors, writing and publishing their conflicts of interest management policy, and those which showed little change.

**b. Engagement in passive management and proper exercise of voting rights**

- According to the results of the survey on companies listed in the JPX-Nikkei Index 400 and meetings with individual companies conducted subsequently, many companies responded that meetings with active managers were more useful than those with passive managers. Also, they responded that pro forma and standardized questions increased. They wondered those questions only intended to show track records of engagement.
- There were external asset managers focused on passive management that announced they would expand the target of engagement; there were others who clarified their criteria and process of identifying companies for which engagement is needed. Although external asset managers focused on passive management have shown changes in awareness of the importance of engagement, we need to check the effectiveness and quality of their engagement activities going forward.
- Feedback from passive asset managers pointed out that the current fee structure is not enough for fulfilling their stewardship responsibilities. Some of them requested that the asset owner should show a principle of stewardship activities.

✓ **Expectations and Concerns for External Asset Managers**

In addition to the following 4 issues:

- To contribute to enhancing the sustainable growth and corporate value of investee companies through an engagement (constructive dialogues) by fully making the best case of Corporate Governance Reports and Integrated Reports
- To improve their own effective governance and conflicts of interest prevention systems
- To exercise voting rights to promote sustainable corporate value growth
- To integrate ESG into the investment process (ESG integration),  
we expect our external asset managers:
- To propose a business model of passive managements that meet the needs of GPIF in post stewardship code era
- To establish remuneration system for directors and employees of asset managers to prevent short termism

✓ **GPIF's Action Plans**

- To evaluate stewardship activities by external asset managers, we will shift from one-way annual

monitoring to constructive communication. In other words, we conduct engagement with external asset managers by exchanging views on stewardship activities

- To examine assessment methods and a fee structure to accommodate a new business model of passive management reflecting asset owner's needs
- To improve our assessment methods for engagement and integration of ESG factors
- To confirm the roles of outside directors and third-party committees, etc. to check the effectiveness of external asset managers' governance and prevention of conflicts of interest, including how the voting rights are exercised
- To expand our coverage of interviews for stewardship activities to asset managers for foreign equities

<Comments of Norihiro Takahashi, President of GPIF>

"We will engage with external asset managers as our partners to fulfill our own stewardship responsibilities. From now on, we will also expand our stewardship activities to foreign equities for our beneficiaries through our involvement with PRI and Global Asset Owners' Forum, etc."

End

The GPIF logo consists of the letters 'GPIF' in a white, bold, sans-serif font, centered within a dark blue square. The background of the slide features a complex, abstract design with overlapping geometric shapes, a line graph, and a world map, all in shades of blue and white.

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# Report of GPIF's Stewardship Activities in 2016

January 2017

Government Pension Investment Fund

GPIF Homepage



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The background of the slide features a complex graphic with a blue and white color scheme. It includes a line graph with a fluctuating line, a bar chart with vertical bars of varying heights, and a stylized world map. The GPIF logo is positioned in the top right corner, consisting of the letters 'GPIF' in a large, bold, sans-serif font, with the words 'GOVERNMENT PENSION INVESTMENT FUND' in a smaller, all-caps, sans-serif font below it. The entire logo is contained within a dark blue rectangular box.

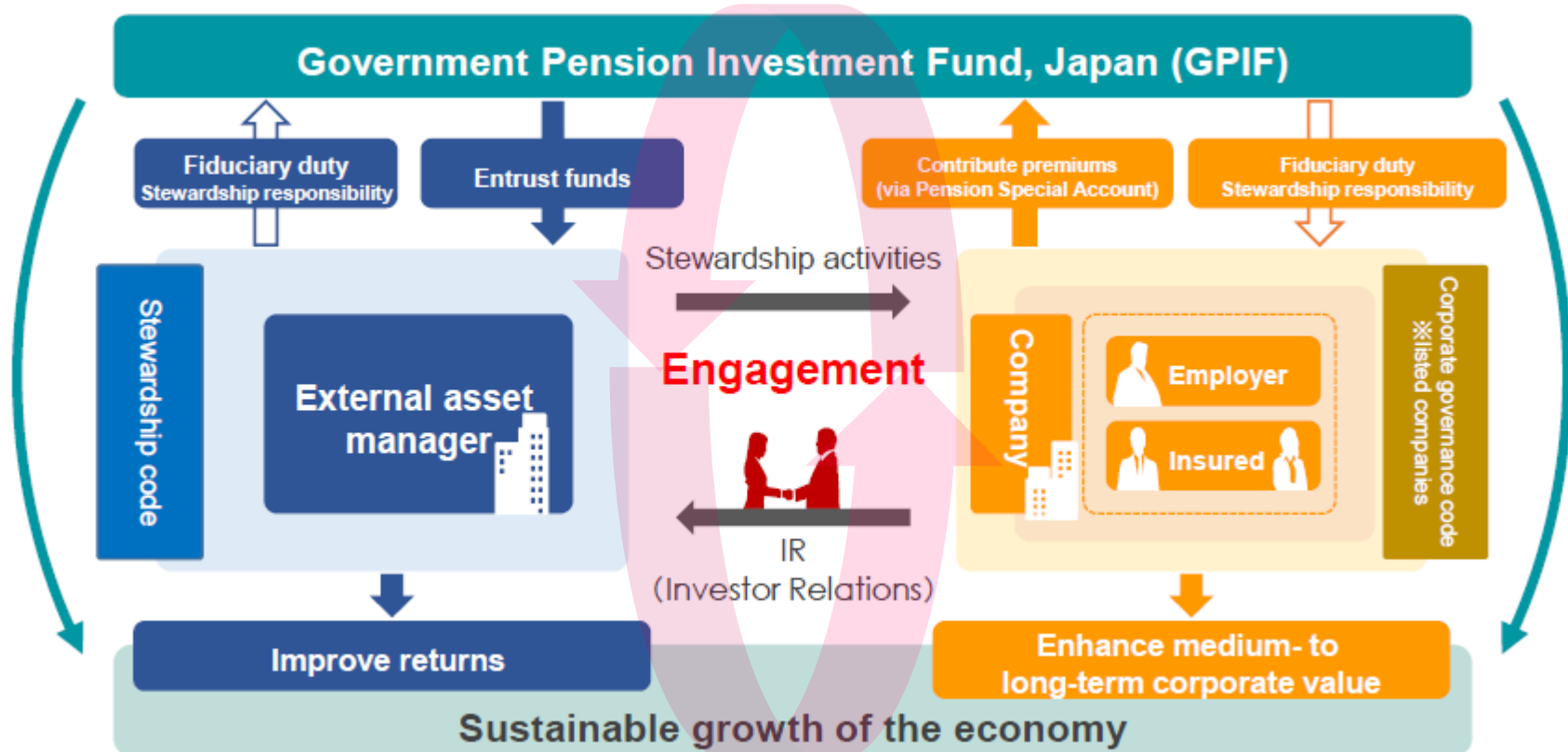
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# **1. Stewardship & ESG Activities of GPIF**

# 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**” (designed as a 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) between its external 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.**





# Stewardship & ESG Activities

Description	
May 2014	Announced the acceptance of Japan's Stewardship Code and published "Policy for Fulfilling Stewardship Responsibilities"
October 2014	Entrusted three companies with "Research on Stewardship Responsibilities and ESG Investments at Government Pension Investment Fund"
March 2015	Announced its "Investment Principles"
September 2015	Signed "United Nations Principles for Responsible Investment (PRI)"
January 2016	Published "Summary Report of GPIF's Stewardship Activities in 2015"
April 2016	Published "Summary Report of Listed Companies' Survey about Institutional Investors' Stewardship Activities"
July 2016	Started call for applications for ESG indices for Japanese equities
July 2016	Announced the establishment of "Business and Asset Owner's Forum" and "Global Asset Owners' Forum"
September 2016	Convened the first meeting of Business and Asset Owner's Forum
October 2016	Established "Stewardship & ESG Division" (comprising seven members including two full-time staff members)
November 2016	Joined the 30% Club in the U.K. and the Thirty Percent Coalition in the U.S.
November 2016	Convened the first meeting of Global Asset Owners' Forum
November 2016	PRI elected Mr. Hiromichi Mizuno, GPIF's Executive Managing Director and CIO, as a board member (term of office: from January 2017 to December 2019)

# GPIF's Priorities on Stewardship Responsibilities

## Objectives

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

Promote external asset  
managers to fulfill  
stewardship responsibilities  
and improve their own  
governance

Consider environment, social  
and governance (ESG) in  
investment decision



### Recent Activities

- Conducted a questionnaire survey on companies of the JPX-Nikkei Index 400 (page 6)
- Held “Business and Asset Owner’s Forum” (page 6)
- Held “Global Asset Owners’ Forum” (page 6)
- Published the list of excellent “Corporate Governance Reports” and “Integrated Reports” selected by GPIF’s external asset managers (page 7)
- Revised the assessment criteria of external asset managers (e.g., increased the weighting of efforts for stewardship responsibilities by passive managers for Japanese equities) (pages 8–9)
- Strengthened collaboration with PRI and domestic and international organizations (pages 10–11)
- Called for applications for the ESG indices for Japanese equities (page 12)



## ■ Questionnaire survey on companies constituting the JPX-Nikkei Index 400

[http://www.gpif.go.jp/en/topics/pdf/20160407\\_summary\\_report\\_of\\_stewardship\\_activities\\_en.pdf](http://www.gpif.go.jp/en/topics/pdf/20160407_summary_report_of_stewardship_activities_en.pdf)

- GPIF conducted the first questionnaire survey on 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 survey was conducted to companies of the JPX-Nikkei Index 400, and 260 companies, or 65% of the Index responded. The results were released on April 7.
- Approximately 60% of respondents recognized changes in attitudes of institutional investors after introduction of the Japanese Stewardship Code and think positively about such changes. Meanwhile, a significant number of respondents requested dialogue based on a medium- and long-term perspective out of concerns about investors’ excessive focus on short-term investment performance (short-termism).

## ■ Business and Asset Owner’s Forum

[http://www.gpif.go.jp/en/topics/pdf/20160901\\_summary\\_of\\_the\\_first\\_meeting.pdf](http://www.gpif.go.jp/en/topics/pdf/20160901_summary_of_the_first_meeting.pdf)

- 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.
- On September 1, 2016, the first meeting of Business and Asset Owner’s Forum was convened (with the participation of a total of eight companies including the above three organizers).
- The participants discussed topics such as strategies for improvement of corporate value, “engagement that encourages effective dialogue” from the perspective of companies, and expectations and requests for asset owners including GPIF to set out principles for exercising voting rights, etc.
- GPIF released the contents of discussion and also gave feedback to its external asset managers and overseas asset owners.

## ■ Global Asset Owners’ Forum

[http://www.gpif.go.jp/topics/2016/pdf/1221\\_first\\_meeting\\_of\\_global\\_asset\\_owners\\_forum\\_en.pdf](http://www.gpif.go.jp/topics/2016/pdf/1221_first_meeting_of_global_asset_owners_forum_en.pdf)

- The forum was established with the aim of creating a platform for continuous exchange of opinions with international public pension funds, etc., which are advanced in this field, and utilizing their advanced knowledge, in order to fulfill stewardship responsibilities further for the beneficiaries.
- On November 14, 2016, the first meeting of the Global Asset Owners’ Forum was convened (organized by GPIF, CalPERS, and CalSTRS and participated in by a total of 13 asset owners).
- At the forum meeting, the attendees discussed the need for sharing best practices to align the interests of asset owners with those of asset managers; sharing knowledge and experience on ESG (Environmental, Social, and Governance) issues; and joint utilization of legal networks and research and study, and a summary of discussions was published.

## ■ The list of excellent “Corporate Governance Reports” and “Integrated Reports” selected by GPIF’s external asset managers

- GPIF considers Corporate Governance Reports and 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 requested external asset managers of domestic equities to each select three companies that have created excellent Corporate Governance Reports and Integrated Reports in August 2016, with the aim of encouraging companies to enhance or start creating those two reports and urging investors to utilize them. GPIF compiled the results and announced them in November.
- In response to the publication of the list, we received feedback from companies about positive effects, such as “heightened attention to the two reports from management,” “strengthened cooperation among persons and departments concerned in the company,” “awareness of importance of the two reports to the company,” and “PR effects to parties outside the company through company website and SNS.”

### ○ Excellent Corporate Governance Reports

Code	Company Name
4452	Kao
6645	OMRON
1878	Daito Trust Construction
4911	Shiseido
6146	DISCO
6361	EBARA

Note: Responses were received from 16 of GPIF’s external asset managers of domestic equities.

Each investment management company listed three companies that have created excellent Corporate Governance Reports, and GPIF compiled the results. Besides the companies listed in the table above, companies whose names were mentioned include HORIBA, Nidec Corporation, Nippon Paper Industries, Nissan Chemical Industries, TEIJIN, SEKISUI CHEMICAL, Komatsu, Mitsubishi Heavy Industries, Mitsubishi UFJFG, SHIONOGI, ITOCHU, UNITED ARROWS, Yamaha Motor, Yakult Honsha, Mizuho FG, BANDAI NAMCO Holdings, Toyota Motor, Denka, SUMIDA CORPORATION, START TODAY, Kirin Holdings, CAPCOM, Kakaku.com, Olympus, ORIX, Anritsu, Asahi Group Holdings, TDK, MS&AD, J.FRONT RETAILING, HOYA, and KAMEDA SEIKA.

### ○ Excellent Integrated Reports

Code	Company Name
9697	CAPCOM
6645	OMRON
2802	AJINOMOTO
4927	POLA ORBIS HD
8252	MARUI GROUP
8058	Mitsubishi Corporation
1925	Daiwa House Industry
6856	HORIBA
7011	Mitsubishi Heavy Industries

Note: Responses were received from 16 of GPIF’s external asset managers of domestic equities.

Each investment management company listed three companies that have created excellent Integrated Reports, and GPIF compiled the results. Besides the companies listed in the table above, companies whose names were mentioned include J.FRONT RETAILING, SCSK, TDK, Asahi Group Holdings, Anritsu, Eisai, Olympus, Calsonic Kansei, TS TECH, Nabtesco, Fujikura, Mizuho FG, UNITED ARROWS, Ricoh, Leoplace21, Asahi Kasei, ITO EN, KEPCO, MITSUI CHEMICALS, Mitsubishi Chemical HD, Daito Trust Construction, Chugai Pharmaceutical, and JAL.

## ■ Revised the Assessment Criteria of “Activities of Stewardship Responsibilities”

### Revised the weighting of the assessment of activities of stewardship responsibilities

- Approximately 80 percent of GPIF's domestic equity holdings are invested in by passive management funds. Considering this, 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 was pointed out in “Summary Report of GPIF's Stewardship Activities in 2015,” there is room for improvement in the approach to stewardship activities of external asset managers focused on passive management.
- A boost in the domestic equity market will be instrumental in improving investment returns in the overall domestic equity management. Therefore, external asset managers which fulfill stewardship responsibilities will be evaluated highly.
- Beginning from 2016, the weighting of “activities of stewardship responsibilities” in the qualitative assessment of external asset managers focused on passive management investing in domestic equities was raised significantly to 30% from 10%.
- The above-mentioned new assessment standards started being used in the assessment in 2016, and the results will be reflected in allocation of funds in the following year.

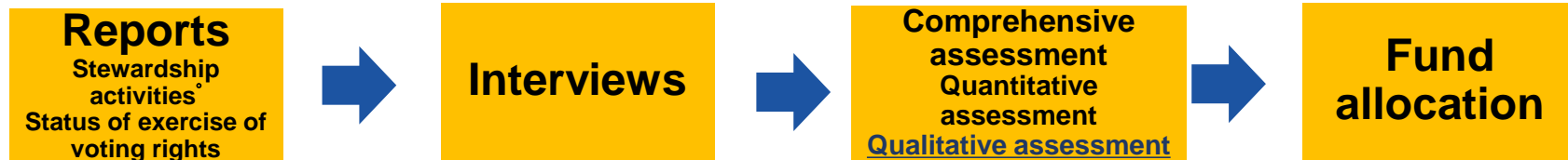
### Addition of evaluation items regarding governance system and system to prevent adverse effects of conflicts of interest

- As was pointed out in “Summary Report of GPIF's Stewardship Activities in 2015,” there are some cases where organizational responses are not made regarding some external asset managers that are affiliated with financial institution groups to prevent conflicts of interest with their parent companies, etc. And there are other cases where concerns were raised about external asset managers' own governance systems. Therefore, items regarding governance systems of external asset managers and systems to prevent adverse effects of conflicts of interest were newly added to the evaluation items.

### Addition of evaluation items regarding ESG considerations

- Following the signing of the United Nations Principles for Responsible Investment (PRI) in September 2015, GPIF decided to include items regarding voluntary efforts while considering ESG for qualitative assessment in “Efforts for Stewardship Responsibilities” beginning from 2016. The aim was to encourage voluntary efforts while considering ESG (environmental, social and governance) in engagement activities. This change was reflected from the assessment in 2016.

## ■ Flow of Assessment of External Asset Managers



## ■ Assessment of “Activities of Stewardship Responsibilities”

- Stewardship responsibilities are assessed as an evaluation item in the qualitative assessment.
- In conducting assessment, GPIF received reports from external asset managers of domestic equities (19 entities) and external asset managers for foreign equities (19 entities) on their status of stewardship activities and exercise of voting rights, and carried out interviews with them between August and October.
- GPIF checked the frameworks (organizations, conflicts of interest management), the status of signing and responses to PRI, stewardship activities (policy, status of efforts, implementation of engagement), the status of efforts for ESG issues, and the status of exercise of voting rights (topics, cases where judgments were divided among external asset managers, process of deciding on judgments on exercising shareholder proposals, etc.) based on such reports and interviews, exchanged opinions on how external asset managers worked on stewardship activities, and made an assessment by utilizing information obtained from external vendors also.
- In addition to the above, we requested external asset managers of domestic equities to select excellent Corporate Governance Reports and Integrated Reports, and checked points of focus and differences from other companies, etc.
- In the event where concerns about governance of external asset managers, such as conflicts of interest, were acknowledged through reports and interviews, GPIF communicated its concerns and conducted engagement by utilizing various opportunities, such as meetings, aiming to alleviate such concerns.

## ■ Strengthened Collaboration with PRI and Domestic and International Organizations

- Accession to international organizations

September 2015 Signed PRI

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

\* GPIF joined the 30% Club and the Thirty Percent Coalition as an observer to gather information on efforts for promoting women's active participation (diversity promotion) of overseas businesses and institutional investors.

- 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

- Lectures, etc. at various seminars and international conferences (summary of events since the previous report)

February 2016 The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (the 6th meeting) by the Financial Services Agency

March 2016 The Working Group (the 5<sup>th</sup>) on Asset Management by the Japan Securities Dealers Association

May 2016 Milken Institute Global Conference 2016

June 2016 The second meeting of the Corporate Governance Study Group in 2016 by the Japan Investment Advisers Association

June 2016 International Corporate Governance Network (ICGN) Annual Conference in San Francisco

September 2016 PRI in Person Singapore 2016

October 2016 The Principles for the Financial Action towards a Sustainable Society—the first symposium organized by Asset Management/Securities/Investment Banking Working Group by the Ministry of the Environment

October 2016 2016 Conference on Inclusive Capitalism

October 2016 The 30th International Investment Funds Association Conference

November 2016 Asian Corporate Governance Association (ACGA) 16th Annual Conference

# Strengthened Collaboration with PRI and Domestic and International Organizations

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



## GPIF's efforts

President Takahashi attended the meeting of the government-organized round table for promoting implementation of SDGs. (September 2016)

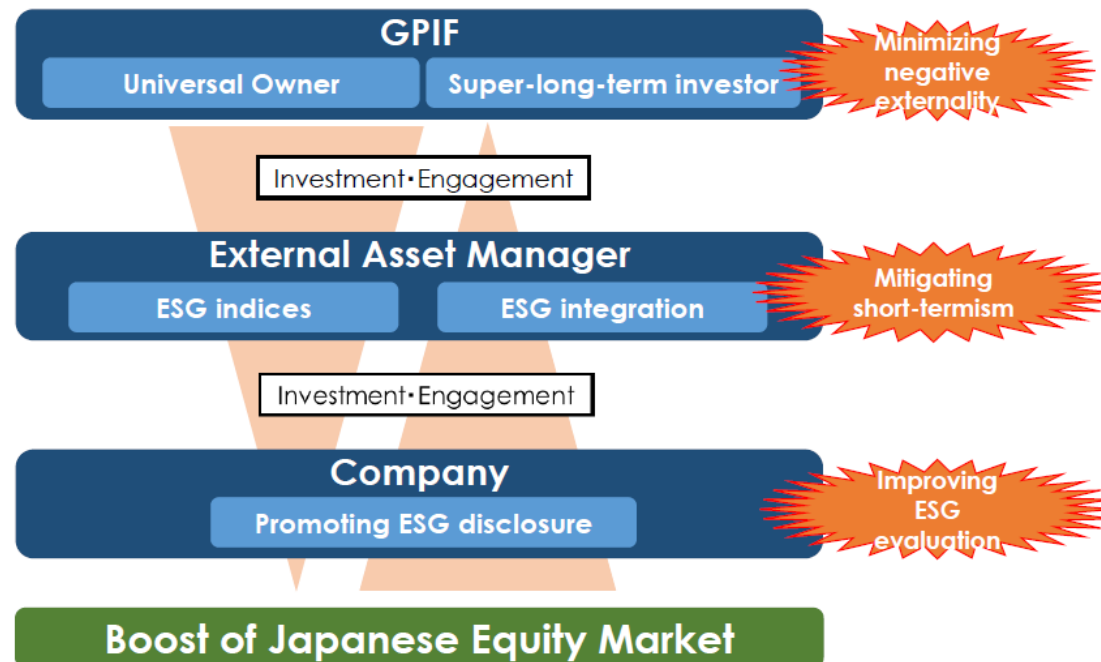
(Source: Created by GPIF based on information from the United Nations, etc.)



## ■ Called for Applications for the ESG Indices for Japanese Equities

- For universal owners including GPIF, it is rational to aim to maximize long-term investment returns from their portfolios by minimizing negative externalities such as environmental and social issues.
- Considering the risk-reduction effects that are expected to be realized by integrating the environmental, social, and governance (“ESG”) factors into the investment process, the longer the investment horizon is, the greater the effects of improving risk-adjusted investment returns will be. Therefore, there is a significant meaning for GPIF to integrate ESG factors into the investment process.
- Based on the above views, GPIF called for applications for the indices (ESG indices), by which risk-reduction effects and acquisition of excess returns can be expected from a medium- and long-term perspective through the effects of ESG integration, with the aim of exploring the feasibility of passive management of Japanese equities that integrate ESG factors in the investment process.
- The application period was from July 22, 2016 to September 30, 2016, and we received applications for 27 indices from 14 companies.
- The ESG indices are scheduled to be selected by the end of March 2017.

### Conceptual drawing of optimization of the investment chain expected by ESG investment



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

# Status of GPIF's External Asset Managers

## Organization and structure

- ❑ All external asset managers to whom we have entrusted the investment of domestic equities have accepted Japanese Stewardship Code.
- ❑ We have confirmed that 16 out of 19 external asset managers have signed PRI (three external asset managers have explained that they have not signed PRI because they place priority on their investment philosophies and approaches although they agree to the ideas and purposes of PRI).
- ❑ Seven out of 19 external asset managers have introduced independent outside directors.

## Stewardship activities

- ❑ All external asset managers have set up or reinforced departments or committees dedicated to oversee stewardship activities and stepped up their efforts to throughout a year's continuous organization-wide stewardship activities, from merely exercising voting rights.
- ❑ They all conduct engagement activities, but definitions and contents of activities differ among them, depending on the organizations and investment styles adopted. Some asset managers mentioned about interviews with outside directors as an additional effort.
- ❑ They all positively responded about ESG integration, but only a few of them have meaningfully used ESG in actual engagement. In most of the cases, asset managers only give consideration to stewardship activities in terms of G (governance) issues and exercise of voting rights, while their efforts are less than sufficient for engagement activities for E (environmental) and S (social) issues.
- ❑ Concerning engagement activities and efforts for ESG issues, we consider Corporate Governance Reports to be the main tool of interactive engagement as we stated in "Summary Report of GPIF's Stewardship Activities in 2015." And we expect them to be utilized along with Integrated Reports in conducting dialogue between external asset managers and investee companies. It seems, however, that external asset managers have not used the two reports sufficiently yet.

## Exercise of voting rights

- ❑ Some cases were observed voting rights were exercised by solely depending on proxy advisors or just following formality.

# Follow-up to the Issues Pointed out in “Summary Report of GPIF's Stewardship Activities in 2015” (1)

## Governance systems of external asset managers and conflicts of interest with their parent companies, etc.

### Status in 2015

There were cases where organizational responses were not made in some of the external asset managers affiliated with financial institution groups to resolve concerns about conflicts of interest with their parent companies, etc. There were also cases where we were concerned about some external asset managers' own governance systems.

### Status in 2016

- ❑ There were external asset managers which had developed a system to prevent conflicts of interest. They did this by introducing outside directors and establishing a third-party committee comprising mainly of outside directors, as well as establishing a system of completely eliminating arbitrariness by voting in accordance with external proxy advisors on proposals for election of directors or corporate auditors in which their own personnel and persons from their major shareholders are nominated as candidates.
- ❑ Some external asset managers newly drew up their conflicts of interest management policy and: (1) gave examples of transactions that would be subject to management and disclosed the information on their websites to make it easier for outsiders to form a concept of the policy, and disclosed specific measures for managing conflicts of interest such as (2) ensuring the independence of human resources (by developing rules for personnel changes) and (3) blocking information within the group, and (4) avoiding conflicts of interest in stewardship activities (clarifying rules for exercising voting rights on proposal of a group company or a proposal for which a group company is an interested party).
- ❑ Organizations were polarized between those which had made a big improvement as establishing a third-party committee comprising mainly of outside directors, writing and publishing their conflicts of interest management policy, and those which showed little change.
- ❑ There were some organizations which appeared not to manage conflicts of interest sufficiently or prioritized fiduciary responsibilities in their guidelines for exercising of voting rights.

### Remaining issues

- ✓ There is a need to examine their governance systems and systems to prevent conflicts of interest and create effective and better systems.
- ✓ There were cases in which elimination of arbitrariness was not clear: some organizations which completely entrusted the decision-making on the exercise of voting rights regarding their parent companies or group companies with a third-party specialized organization, such as proxy advisors, and there were other organizations which consulted with third-party specialized organizations.

# Follow-up to the Issues Pointed out in “Summary Report of GPIF's Stewardship Activities in 2015” (2)

## Engagement in passive management and proper exercise of voting rights

### Status in 2015

There was a tendency that engagement concerning equities under active management was established before the introduction of the Stewardship Code. However, criteria for identifying companies for which engagement is needed and a system for implementing engagement have not been sufficiently established for passive management.

### Status in 2016

- ❑ External asset managers focused on passive management developed and strengthened systems by appointing persons dedicated to engaging with management of companies from the viewpoint of improving corporate value on a long-term basis. In addition, some organizations had third-party committees check the appropriateness of the exercise of voting rights.
- ❑ According to the results of the questionnaire survey on companies constituting the JPX-Nikkei Index 400 and meetings with individual companies conducted subsequently, many companies responded that meetings with asset managers focused on active management were more useful than those with external asset managers focused on passive management. On the other hand, there were companies who responded that more questions were pro forma, standardized ones that were deemed to be asked to build track records of engagement. Moreover, there were more cases in which management were compelled to have meetings with asset managers. We confirmed that the content of meetings varied widely among asset managers.
- ❑ We checked the cases where external asset managers were divided over the exercise of voting rights, but there was no response that said the final judgments on the exercise of voting rights were divided according to investment styles of external asset managers.
- ❑ There were external asset managers focused on passive management that announced they would expand the target of engagement to about 900 companies; there were others who clarified their criteria and process of identifying companies for which engagement is needed; and there were others who included companies outside the present scope of research of analysts focused on active management to the target of engagement.

### Remaining issues

- ✓ Proposing a new business model that accommodates the request from asset owners to external asset managers focused on passive management to strengthen stewardship activities.
- ✓ Although external asset managers focused on passive management have shown changes in awareness of the importance of engagement, we need to check the effectiveness and quality of their engagement activities going forward.



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### **3. Expectations and Concerns for External Asset Managers, and GPIF's Action Plans**



## Expectations and Concerns for External Asset Managers

- ✓ To promote utilization of Corporate Governance Reports and Integrated Reports
- ✓ To develop and propose a business model of passive managements that meet the needs of GPIF in post stewardship code era (improving the quality of engagement, drawing up engagement policy and medium- and long-term action plan, and allocation of resources between active management funds and passive management funds, etc.)
- ✓ To enhance integration of ESG factors
- ✓ To exercise voting rights to promote sustainable corporate value growth (whether or not voting rights are exercised automatically by depending on external standards or recommendation of proxy advisors etc.)
- ✓ To improve their own effective governance and conflicts of interest prevention systems
- ✓ To establish remuneration system for directors and employees of asset managers to prevent short termism (whether or not there is an incentive structure encouraging short termism etc.)

## GPIF's Action Plans

- ✓ To grasp the status of utilization and promote the use of Corporate Governance Reports and Integrated Reports by external asset managers of domestic equities
- ✓ To evaluate stewardship activities by external asset managers, we will shift from one-way annual monitoring to constructive communication. In other words, we conduct engagement with external asset managers by exchanging views on stewardship activities
- ✓ To examine assessment methods and a fee structure to accommodate a new business model of passive management reflecting asset owner's needs
- ✓ To improve our assessment methods for engagement and integration of ESG factors (by using discussions and guidelines of PRI's Asset Owner Advisory Committee and SDGs Advisory Committee, and discussions of Global Asset Owners' Forum etc.)
- ✓ To confirm the roles of outside directors and third-party committees, etc. to check the effectiveness of external asset managers' governance and prevention of conflicts of interest, including how the voting rights are exercised
- ✓ To expand our coverage of interviews for stewardship activities to asset managers for foreign equities

**GPIF plans to hold a briefing on the content of this report for external asset managers of domestic equities in February.**

The background of the slide features a complex graphic with a blue and white color scheme. It includes a line graph with an upward trend, a bar chart, and a world map. The GPIF logo is positioned in the top right corner of this graphic area.

**GPIF**

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# **Summary of Status of Exercise of Shareholders' Voting Rights (from April to June 2016)**

# 1. Domestic Equities

12 passive investment funds managed by external asset managers and 15 active investment funds managed by external asset managers (27 funds in total)

## (1) Summary

- All of the external asset managers exercised their voting rights.
- Compared to the previous year, the total number of proposals decreased due to a fall in the number of proposals for “Appointment of Corporate Auditors” and “Proposals pertaining to Changes to the Articles of Incorporation” despite an increase in proposals for “Appointment of Directors” and “Proposals pertaining to Director Remuneration, etc.”
- Regarding proposals by company, the item with the largest number of disapproval 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 Auditors.”

## (2) Proposals related to company organization

- The number of proposals for “Appointment of Outside Directors” increased compared to the previous year. This was due to an increase in the number of companies that newly appointed, or increased the number of, outside directors following the transition to a company with the Audit and Supervisory Committee and the announcement of the Corporate Governance Code.
- Proposals for “Appointment of Directors” were disapproved mainly in the following cases:
  - a. in the case of the appointment of an internal director, when culpability is present for poor business performance and misconduct;
  - b. in the case of the appointment of an outside director, when it is determined that there is a problem with his/her independence or attendance rate; or
  - c. in relation to the revision of the voting guideline on thresholds for ROE/number of outside directors, when such thresholds are not met.

## (3) Proposals related to director remuneration etc.

- For “Directors’ Remuneration,” the number of proposals increased significantly compared to the previous year. This was due to the transition to a company with the Audit and Supervisory Committee and introduction of performance-based remuneration due to the announcement of the Corporate Governance Code.

## (4) Proposals related to Changes to Articles of Incorporation

- For “Proposals related to Changes to Articles of Incorporation,” there was a significant decrease in the number of proposals from the previous year. This was because there were many companies which 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 (promulgated on June 27, 2014, and enforced on May 1, 2015).

## (5) Proposals related to Poison Pills

- For “Poison Pills,” the number of proposals increased compared to the previous year. This was because the number of companies whose Poison Pills expired and that renewed them increased 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 activating and deactivating such measures.

## (6) Others

- Proposals by shareholders are within the scope of scrutiny of all external asset managers.

## 2. Foreign Equities

Corrected

6 passive investment funds managed by external asset managers and 16 active investment funds managed by external asset managers (22 funds in total)

(1) Summary

- All the external asset managers exercised voting rights.
- The total number of proposals increased slightly.
- Regarding proposals by company, the item with the largest number of disapproval votes was “Appointment of Directors”, and those with a higher rate of disapproval were “Poison Pills” and “Granting of Stock Options,” and “Granting of Director Retirement Bonuses.”

(2) Countries in which voting rights were exercised

10 External asset managers did not exercise voting rights in some countries invested in. The main reason for this was the existence of share-blocking schemes in emerging market countries.

(3) Use of Proxy Voting Consultants

- All the external asset managers are using proxy-voting consultants. The purposes vary depending on the company. Some use them to receive information for making judgments on the exercise of voting rights at their own company. Others use them to obtain advice on judgments on such exercise from proxy-voting consultants by presenting their guidelines.
- Reasons for using such proxy-voting consultants include preventing conflicts of interest through a third party’s judgments, in addition to making use of professional competence.

# FY2016 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2016)

## 1. Domestic equities

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

All external managers (27 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 management (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 Corporate Auditors	Of which, appointment of Outside Corporate 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		121,949	31,986	20,567	13,430	278	5,230	1,629	1,302	1,122	10,339	52	1,071	6,025	1,021	0	131	170,716
Management proposals	Total	121,837	31,981	20,558	13,430	278	5,230	1,629	1,302	1,122	10,273	28	1,071	4,858	1,021	0	122	169,329
		(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%)	(0.0%)	(100.0%)	(100.0%)
	Approved	113,511	28,653	17,648	10,633	277	5,120	1,577	583	958	9,898	28	1,057	4,711	446	0	107	155,921
		(93.2%)	(89.6%)	(85.8%)	(79.2%)	(99.6%)	(97.9%)	(96.8%)	(44.8%)	(85.4%)	(96.3%)	(100.0%)	(98.7%)	(97.0%)	(43.7%)	(0.0%)	(87.7%)	(92.1%)
	Opposed	8,326	3,328	2,910	2,797	1	110	52	719	164	375	0	14	147	575	0	15	13,408
		(6.8%)	(10.4%)	(14.2%)	(20.8%)	(0.4%)	(2.1%)	(3.2%)	(55.2%)	(14.6%)	(3.7%)	(0.0%)	(1.3%)	(3.0%)	(56.3%)	(0.0%)	(12.3%)	(7.9%)
Shareholder proposals	Total	112	5	9	0	0	0	0	0	0	66	24	0	1,167	0	0	9	1,387
		(100.0%)	(100.0%)	(100.0%)	(0.0%)	(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	0	0	0	0	0	0	0	0	0	12	3	0	50	0	0	0	65
		(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(18.2%)	(12.5%)	(0.0%)	(4.3%)	(0.0%)	(0.0%)	(0.0%)	(4.7%)
	Opposed	112	5	9	0	0	0	0	0	0	54	21	0	1,117	0	0	9	1,322
		(100.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(81.8%)	(87.5%)	(0.0%)	(95.7%)	(0.0%)	(0.0%)	(100.0%)	(95.3%)

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

\* There was no case of abstention and non-exercise.

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

# FY2016 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2016)

## 2. Foreign equities

Corrected

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

All external asset managers (22 funds) exercised their voting rights.

#### ○ Exercise of voting rights by the 22 funds that exercised such rights

Country of exercise	1. All countries invested in	11 funds	(50.0%)
	2. Some countries invested in	11 funds	(50.0%)

(Note) Figures in parentheses show the ratio to the total (22 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 management (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	Appointment of Corporate Auditors	Appointment of Accounting Auditors	Director remuneration	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Merger, transfer of business, company split, etc.			Approval of Financial Statements/ Statutory Report	Other proposals	
No. of voting rights exercised		67,582	2,278	8,938	12,654	371	193	3,098	6,239	3,499	7,313	4,268	224	8,864	26,318	151,839
Management proposals	Total	66,841	2,028	8,890	12,375	371	187	3,017	6,217	3,494	7,131	3,980	206	8,864	22,125	145,726
		(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	62,905	1,746	8,792	11,200	331	146	2,288	6,197	3,165	5,777	3,637	139	8,755	19,486	134,564
		(94.1%)	(86.1%)	(98.9%)	(90.5%)	(89.2%)	(78.1%)	(75.8%)	(99.7%)	(90.6%)	(81.0%)	(91.4%)	(70.8%)	(98.8%)	(88.1%)	(92.3%)
	Opposed	3,936	282	98	1,175	40	41	729	20	329	1,354	343	67	109	2,639	11,162
		(5.9%)	(13.9%)	(1.1%)	(9.5%)	(10.8%)	(21.9%)	(24.2%)	(0.3%)	(9.4%)	(19.0%)	(8.6%)	(29.2%)	(1.2%)	(11.9%)	(7.7%)
Shareholder proposals	Total	741	250	48	279	0	6	81	22	5	182	288	18	0	4,193	6,113
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	348	130	26	60	0	2	20	0	0	170	166	18	0	1,690	2,630
		(47.0%)	(52.0%)	(54.2%)	(21.5%)	(0.0%)	(33.3%)	(24.7%)	(0.0%)	(0.0%)	(93.4%)	(57.6%)	(100.0%)	(0.0%)	(40.3%)	(43.0%)
	Opposed	393	120	22	219	0	4	61	22	5	12	122	0	0	2,503	3,483
		(53.0%)	(48.0%)	(45.8%)	(78.5%)	(0.0%)	(66.7%)	(75.3%)	(100.0%)	(100.0%)	(6.6%)	(42.4%)	(0.0%)	(0.0%)	(59.7%)	(57.0%)

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

\* "Opposed" figures include 67 abstentions.



# FY2016 Summary Report on Exercise of Shareholder Voting Rights (from April to June 2016)

Corrected

## Voting Rights Exercised: Comparison by Fiscal Year (April–June)

\* 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
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
		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%
	Approval of shareholder proposals	15	38	48	89	57	41	76	37	42	47	34	58	34	56	55	65
		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%
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
		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%
	Approval of shareholder proposals	123	381	999	907	1,074	1,724	1,669	1,745	2,821	2,085	1,486	1,655	1,503	1,483	2,650	2,630
		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%

# 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, we shall continue to maximize medium- to long-term equity investment returns for the benefit of pension recipients.

# Code of Conduct

## [1] Social responsibility

- ◆ The GPIF's mission is to contribute to the stability of the public pension system (Employees' Pension Insurance and National Pensions) by managing the reserve assets and distributing the proceeds to the government.

## [2] Fiduciary duty

- ◆ We fully understand that the reserve assets are instrumental for future pension benefits payments, act solely for the benefit of pension recipients, and pledge to pay due attention as prudent experts in exercising our fiduciary responsibilities. The Committee members of the Investment Advisory Committee shall by no means be motivated by benefitting the organizations to which they belong.

## [3] Compliance with laws and maintaining highest professional ethics and integrity

- ◆ We shall comply with laws and social norms, remain fully cognizant of our social responsibilities associated with pension reserve management, and act with the highest professional ethics and integrity to avoid any distrust or suspicion of the public.

## [4] Duty of confidentiality and protecting the GPIF's asset

- ◆ We shall strictly control confidential information that we come to access through our businesses, such as non-public information related to investment policies and investment activities, and never use such information privately or illegally.
- ◆ We shall effectively use the GPIF's assets, both tangible and intangible (e.g., documents, proprietary information, system, and know-how), and protect and manage such assets properly.

## [5] Prohibition of pursuing interests other than those of GPIF

- ◆ We shall never use our occupations or positions for the interests of ourselves, relatives, or third parties.
- ◆ We shall never seek undue profits at the expense of the GPIF.

## [6] Fairness of business transactions

- ◆ We shall respect fair business practices at home and abroad, and treat all counterparties impartially.
- ◆ We shall never make transactions with anti-social forces or bodies.

## [7] Improving information disclosure

- ◆ We shall continue to improve our public information disclosure and public relations activities.
- ◆ We shall ensure the accuracy and appropriateness of our financial statements and other public documents that are required to be disclosed by laws and ordinances.
- ◆ We shall remain mindful that our outside activities, regardless of whether business or private (e.g., publications, speeches, interviews, or use of social media) affect the credibility of the GPIF, and act accordingly.

## [8] Developing human resources and respect in the workplace

- ◆ We are committed to the GPIF's mission by improving our professional skills and expertise, promoting communication and teamwork and nurturing a diversity of talents and capabilities.
- ◆ We shall respect each person's personality, talents and capabilities, perspectives, well-being, and privacy to maintain a good work environment, and never allow discrimination or harassment.

## [9] Self-surveillance of illegal or inappropriate activity

- ◆ Whenever an illegal or inappropriate activity is (or is expected to be) perpetrated by Committee members, executives, staff, or other related personnel, such activity shall be immediately reported to the GPIF through various channels including our whistleblowing system.
- ◆ When such a report is made, we shall conduct the necessary investigation and take corrective actions and preventive measures according to our internal rules.

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