

Government Pension Investment Fund

Summary Report of the 2nd Survey of Listed Companies Regarding Institutional Investors' Stewardship Activities

I. Purpose of the Survey

The Government Pension Investment Fund, Japan (GPIF) conducted the second survey targeting JPX Nikkei Index 400 companies ("listed companies") in order to evaluate stewardship activities carried out by the institutions serving as GPIF's external asset managers and to ascertain the actual status of purposeful and constructive dialogues (engagement) between these companies and institutions as well as the changes that have been observed since the previous survey.

We have held interviews and dialogues with our external asset managers on an ongoing basis regarding their stewardship activities. However, taking this approach alone could result in gathering information only from one side, which might be less objective. Accordingly, we make it another purpose of this survey to gather information from the other side, with a focus on how business operating companies consider institutional investors' stewardship activities, thereby raising the overall level of these activities.

2. Outline of the Survey

- Subjects: JPX Nikkei Index 400 companies
- Number of respondent companies: 272 (previous survey: 260)
- Response rate: 68% (previous survey: 65%)
- Survey period: From February 7 to March 31, 2017 (previous survey: from January 6 to 22, 2016)

3. Summary of the Survey Results

■ Opinions and Requests of Companies Regarding Stewardship Activities of Institutional Investors

- With regard to changes in the attitude of institutional investors since the previous survey, the majority of the respondent companies that observed changes considered these changes to be desirable. However, in terms of preparation for IR meetings or use of Corporate Governance Reports, the majority observed no significant changes.
- As observed in last year's survey, a significantly large number of companies expect investment from a mid- to long-term viewpoint and dialogues. Meanwhile, the number of those seeking discussion and understanding of ESG and non-financial information increased over the previous year.
- More than half of the respondent companies did not receive from institutional investors any explanation regarding their decision to vote for or against agenda items and the reason for voting. Some of the respondent companies, albeit only a few, experienced institutional investors' refusal to provide an explanation of their voting decisions. There were also companies that criticized institutional investors

for applying a pro forma standard or relying automatically on the recommendations from proxy advisors.

■ Companies' Disclosure of ESG Information (preparing Integrated Reports, holding presentation meetings)

- Companies that currently prepare Integrated Reports and those planning to prepare or considering preparation of Integrated Reports account for three-fourths of all respondent companies. Also, there are companies which hold ESG presentation meetings.

■ Evaluation by Companies concerning Stewardship Activities of GPIF's External Asset Managers

- Among the institutions serving as GPIF's external asset managers, many companies named Japanese institutions adopting passive investment as those that showed desirable changes from the perspective of enhancing mid- to long-term corporate value. On the other hand, on the basis of the number of companies naming each institution as adjusted by the number of companies invested by the institution, institutions adopting active investment were named more frequently both among Japanese and global institutions.

■ Opinions and Requests of Companies Regarding Stewardship Activities of GPIF as Asset Owner

- Companies expect GPIF to: encourage its external asset managers to conduct investment and dialogues with investee companies from a mid- to long-term viewpoint; take independent initiatives to enhance its stewardship activities; and hold direct dialogues with investee companies more actively. Some companies also called for GPIF's influence on the sell side (securities companies) via its external asset managers and its support for empirical studies on corporate governance.

4. GPIF's Points of View

<Engagement; use of ESG and non-financial information>

We consider that carrying out engagement activities from a mid- to long-term viewpoint is important for enhancing mid- to long-term corporate value. We encourage the institutions serving as our external asset managers to act in line with this policy. In engagement, Integrated Reports and Corporate Governance Reports are very useful tools for efficiently understanding not only financial information but also non-financial information (including ESG issues) of investee companies as well as their views and policies. We expect that institutional investors will make full use of these reports and conduct high-quality dialogues with investee companies that will be beneficial to both sides.

<Dialogues on voting>

In this questionnaire survey, the respondent companies expressed their concern about institutional investors' attitude such as applying a pro forma standard or relying automatically on the recommendations from proxy advisors. The survey also revealed that some companies experienced institutional investors' refusal to provide an explanation regarding their voting decision. Enhancing the transparency of institutional investors' voting

decisions and the process through which decisions are made will be necessary for enabling both investee companies and investors to manage business or exercise voting rights based on their respective enhanced understanding.

<Dialogues with Companies>

We will continue our efforts to improve our stewardship activities as well as activities carried out by our external asset managers, by taking such measures as this kind of questionnaire survey and interviews with investee companies.

End

GPIF

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May 2017

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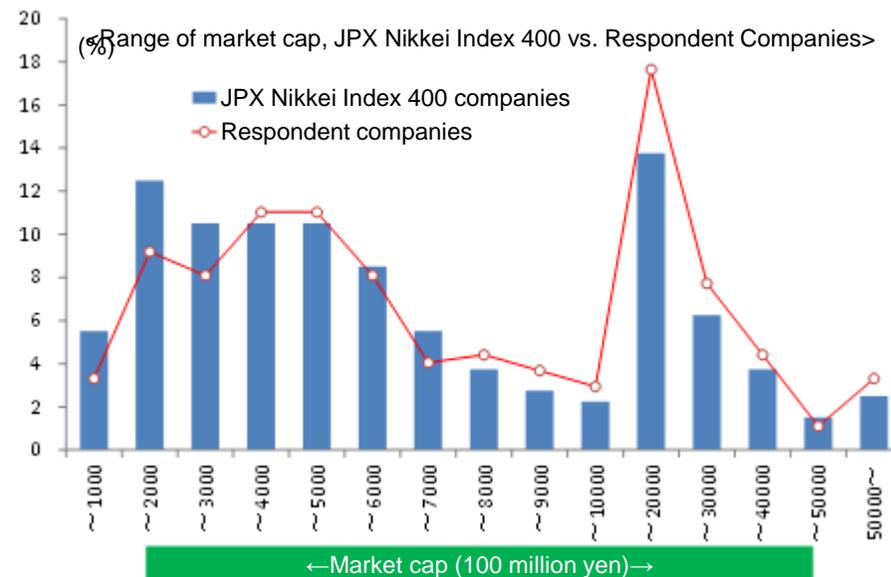
Purpose and Subjects of the Survey

1. Purpose

To evaluate stewardship activities of the institutions serving as GPIF's external asset managers and to ascertain the actual status of their purposeful and constructive dialogues (engagement) with investee companies as well as the changes since the previous survey.

2. Subjects, etc.

- Subjects: JPX Nikkei Index 400 companies
- Number of respondent companies: 272 (previous survey: 260)
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Summary of the Survey Results

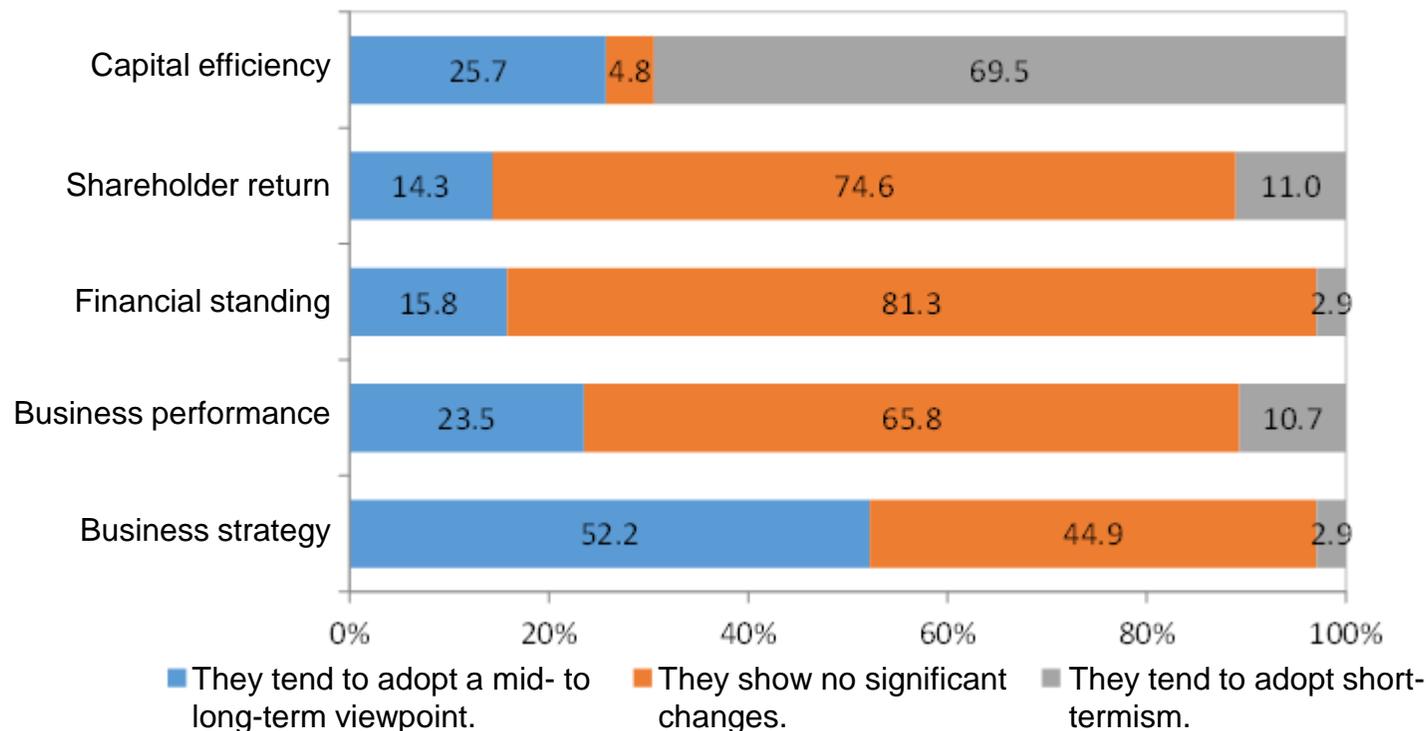
1. With regard to changes in the attitude of institutional investors since the previous survey, the majority of the respondent companies that observed changes considered these changes to be desirable. However, in terms of preparation for IR meetings or use of Corporate Governance Reports, the majority observed no significant changes (p. 2-5).
2. More than half of the respondent companies did not receive from institutional investors any explanation regarding their decision to vote for or against agenda items and the reason for voting. Some of the respondent companies, albeit only a few, experienced institutional investors' refusal to provide an explanation of their voting decisions. There were also companies that criticized institutional investors for applying a pro forma standard or relying automatically on the recommendations from proxy advisors (p. 6).
3. Among the institutions serving as GPIF's external asset managers, many companies named Japanese institutions adopting passive investment as those that showed desirable changes from the perspective of enhancing mid- to long-term corporate value. On the other hand, on the basis of the number of companies naming each institution as adjusted by the number of companies invested by the institution, institutions adopting active investment were named more frequently both among Japanese and global institutions (p. 7).
4. Companies that currently prepare Integrated Reports and those planning to prepare or considering preparation of Integrated Reports account for three-fourths of all respondent companies. Also, there are companies which hold ESG presentation meetings (p. 15-16).
5. Companies expect GPIF to: encourage its external asset managers to conduct investment and dialogues with investee companies from a mid- to long-term viewpoint; take independent initiatives to enhance its stewardship activities; and hold direct dialogues with investee companies more actively. Some companies also called for GPIF's influence on the sell side (securities companies) via its external asset managers and its support for empirical studies on corporate governance (p. 19-21).

Q1: With regard to institutional investors as a whole, have you observed any changes in their attitude at IR/SR meetings since the previous survey?

Response	(%)								
Observed changes	56.3								
<table border="1"> <tr> <td>Desirable changes in all or majority of institutional investors</td> <td>5.9</td> </tr> <tr> <td>Desirable changes in some institutional investors</td> <td>37.5</td> </tr> <tr> <td>Bipolarization among institutional investors</td> <td>11.8</td> </tr> <tr> <td>Undesirable changes in more institutional investors</td> <td>1.1</td> </tr> </table>	Desirable changes in all or majority of institutional investors	5.9	Desirable changes in some institutional investors	37.5	Bipolarization among institutional investors	11.8	Undesirable changes in more institutional investors	1.1	43.4%
Desirable changes in all or majority of institutional investors	5.9								
Desirable changes in some institutional investors	37.5								
Bipolarization among institutional investors	11.8								
Undesirable changes in more institutional investors	1.1								
Observed no changes	42.3								
No response	1.5								

- With regard to changes in the attitude of institutional investors since the previous survey (conducted in January 2016), more than half of the respondent companies mentioned that they observed changes at IR/SR meetings, with the majority of these companies citing desirable changes.

Q2: With regard to institutional investors as a whole, choose the option that applies to the changes you have observed in their "timeframe for discussion" on the following topics at IR meetings.



- About 70% of the respondent companies pointed out that institutional investors tend to adopt short-termism concerning capital efficiency.
- In terms of shareholder return, financial standing, business performance, and business strategy, the majority observed no significant changes, whereas among the others, more companies cited the tendency to adopt a mid-to long-term viewpoint as compared to those citing the tendency to adopt short termism.

Q3: With regard to institutional investors as a whole, choose the option that applies to the changes you have observed in terms of the following topics.

(1) Institutional investors' preparation for IR meetings

(i) They take more time than before to make preparations for IR meetings, raising the level of meetings.	14.0%
(ii) They show no significant changes.	82.4%
(iii) Many of them are insufficiently prepared for IR meetings.	3.7%

(2) Institutional investors' use of Corporate Governance Reports

(i) They appear to use the reports more effectively than before.	17.3%
(ii) They show no significant changes.	75.4%
(iii) They do not appear to use the reports effectively.	7.0%
(iv) No response	0.4%

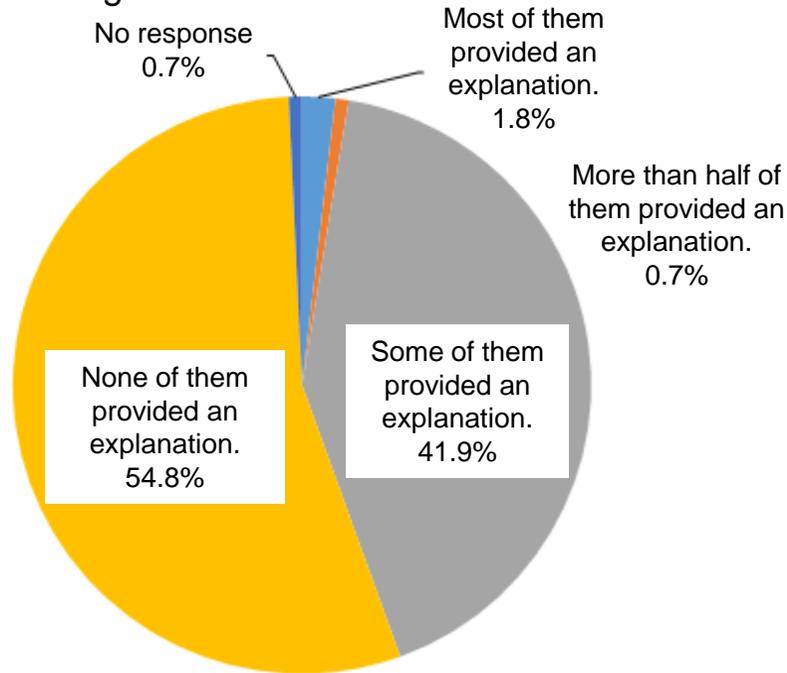
(3) Institutional investors' use of Integrated Reports

(i) They appear to use the reports more effectively than before.	24.6%
(ii) They show no significant changes.	29.0%
(iii) They do not appear to use the reports effectively.	6.3%
(iv) No response (companies that do not prepare the reports)	40.1%

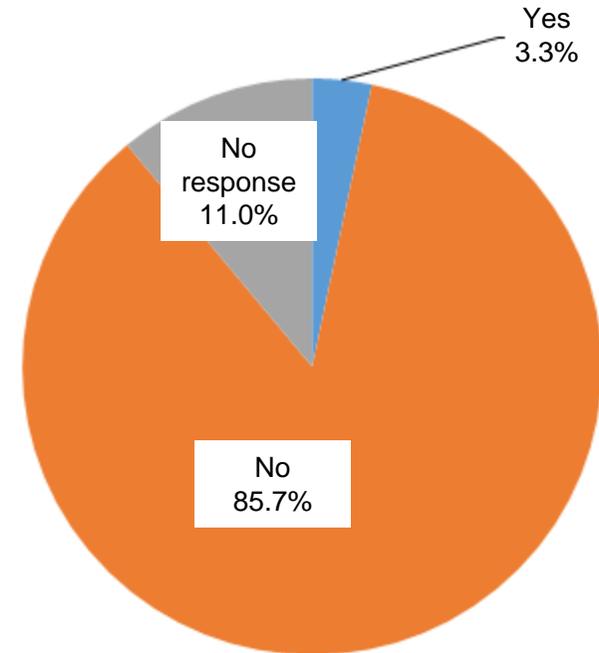
■ Overall for the responses to this question, most companies observed changes in the attitude of institutional investors, whereas, focusing on topics (1) and (2), the majority observed no significant changes. However, some companies gave positive comments, such as, "More investors tend to present agenda items and questions before holding meetings with us" and "Investors use our reports more effectively as reference materials for voting."

Q4: Voting at shareholder meetings

(1) Have you received from institutional investors an explanation regarding their decision to vote for or against agenda items at your shareholder meetings and reason for voting?



(2) Have you experienced institutional investors' refusal to provide an explanation of their voting decisions?

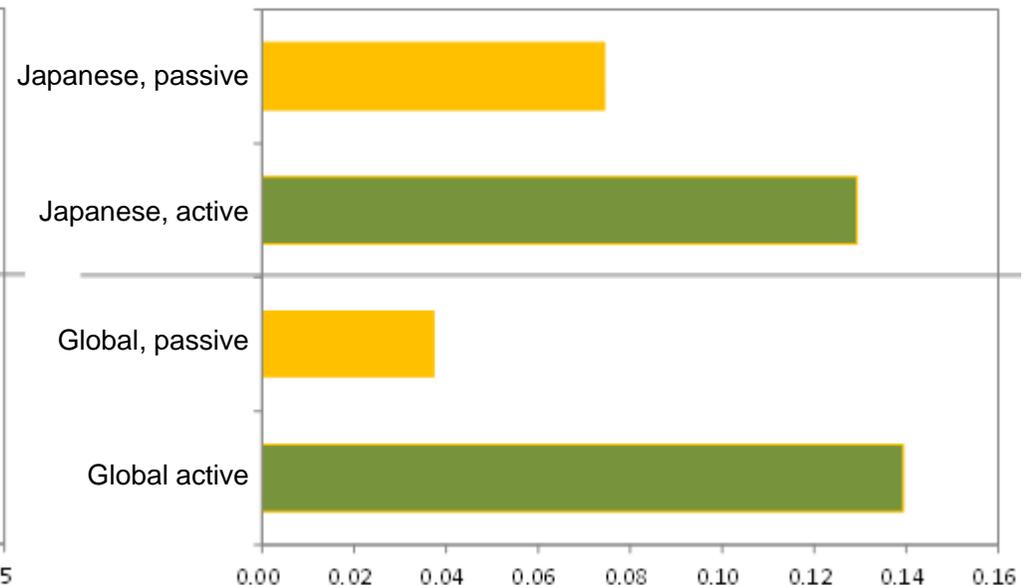
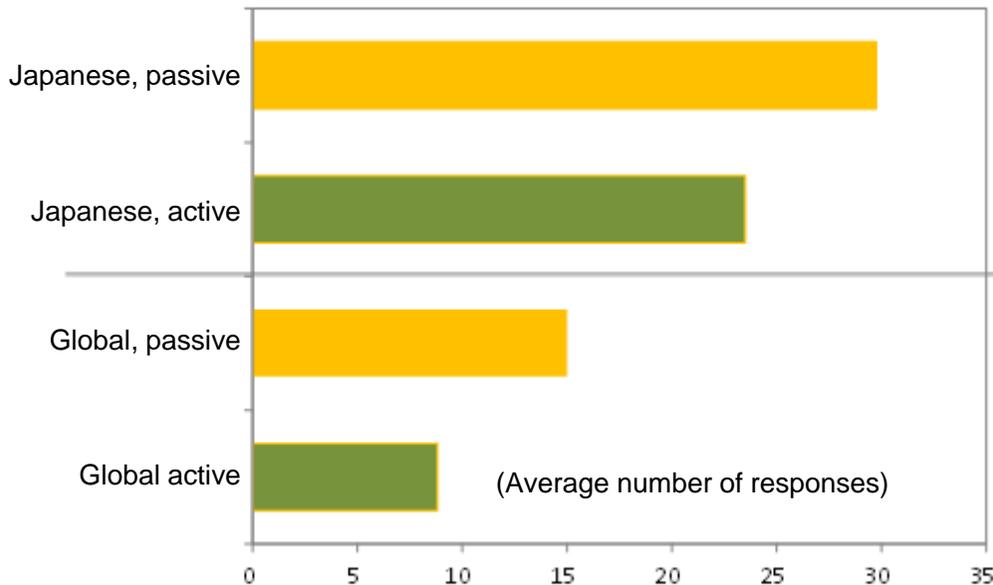


- 44% of the respondent companies received from institutional investors an explanation regarding their decision to vote for or against agenda items and reason for voting.
- Some of the respondent companies, albeit only a few, experienced institutional investors' refusal to provide an explanation of their voting decisions.

Q5: Among the institutions serving as GPIF's external asset managers, name the institutions (up to three) that you consider have provided you with a useful discussion or contribution or showed desirable changes from the perspective of enhancing your mid- to long-term corporate value, and cite the reasons for naming them.

**Average number of responses naming each institution
(simple average)**

**Average number of responses naming each institution
(as adjusted by the number of companies invested by each institution)**



* The right-hand graph shows the average number of responses naming each institution as adjusted by the number of companies invested by the institution as of the end of September 2016. The number of investee companies exceeding 400 is treated as 400 in calculating the average number of responses. The classification of "active" and "passive" is based on the classification adopted for GPIF's domestic equity investment.

- According to the simple average number of responses naming each institution, many companies named Japanese institutions adopting passive investment. On the other hand, on the basis of the number as adjusted by the number of companies invested by each institution, institutions adopting active investment were named more frequently both among Japanese and global institutions.

Q6: Please share with us information regarding the questions and comments you received from institutional investors through their engagement activities.

Major responses

Institutional investors said that they consider agenda items at two levels. One is the minimum standard level, and they would vote against an item that does not reach this level. The other is a higher level which represents the ideal or goal that the investee company pursues, and they would find little meaning in such agenda items that do not remind them of such ideal or goal. [Construction]

Our management initiatives toward enhancing our sustainable corporate value under the current CEO's leadership have been highly evaluated by our investors. Meanwhile, probably due to their concern about continuity from the current management and potential for development, investors with a long-term viewpoint have asked more frequently about the appointment of the next CEO (e.g. a succession plan, appointment process). Through dialogues with these investors, we have a highlighted awareness of the importance of diversity of members of the board and corporate management. [Chemicals]

Institutional investors are not interested in a "good-looking strategic framework," but they are eager to know the factors that served as a driver at the point when the investee company achieved changes (especially when they had poor business performance) and whether these factors will also function as such when a significant change occurs in the future business climate. [Glass, stone and clay product]

An institutional investor commented that they were concerned about the fact that our company's stock price was not properly evaluated, and gave us suggestions concerning specific measures we should take to address such concern, while showing us the relevant case examples and data. [Banking]

- Importance of disclosure of non-financial information
- Investment decisions should not be made only on the basis of ESG issues but should be integrated with business perspectives.

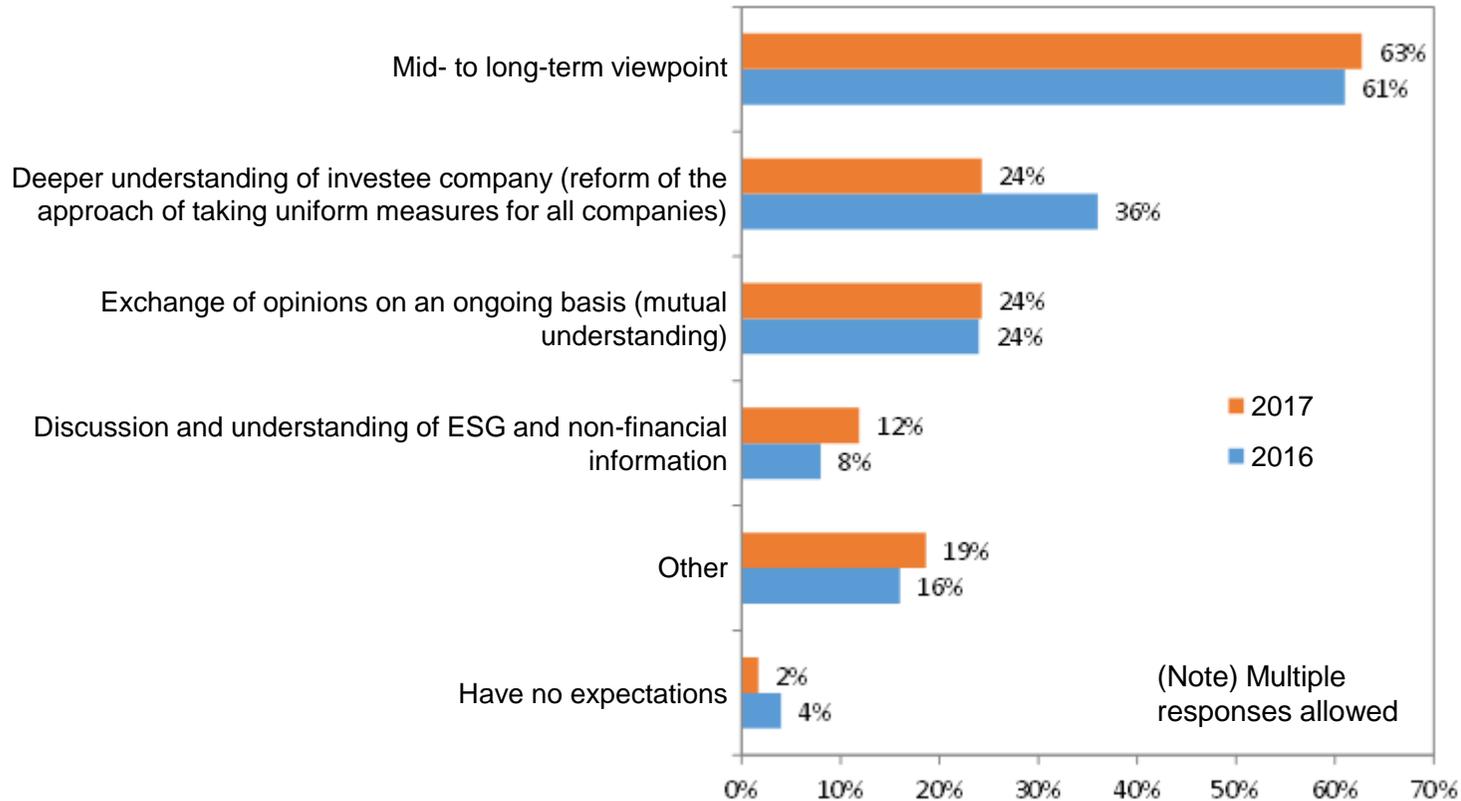
[Transportation equipment]

We were requested by an institutional investor to describe our company's growth scenario within the framework of SDGs. We considered that the investor did not intend to investigate our ESG issues only formally but their request was derived from their substantial discussion on how to connect ESG issues with corporate valuation. [Information and communication]

We received a comment from an institutional investor that there is no company but our company that visits investors by forming a team consisting of diverse members including the president, foreign director, external director, and IR manager. [Other product]

Q7: What do you expect from institutional investors as a whole in pursuing enhancement of your corporate value and sustainable growth over a mid- to long-term?

Expectations for institutional investors



■ As observed in last year's survey, a significantly large number of companies expect investment from a mid- to long-term viewpoint and dialogues. The number of those seeking discussion and understanding of ESG and non-financial information increased over the previous year.

Major responses

We intend to enhance our disclosure so that we can hold discussions with institutional investors that will contribute to increasing our corporate value over a mid- to long-term. In this respect, we expect investors to give us suggestions from their professional standpoint, such as regarding what kind of information is useful and what challenges our company is facing as compared with other companies. [Food]

We expect further encouragement of dialogues with institutional investors, and if possible, we hope to have dialogues with the management of the institutions serving as GPIF's external asset managers. We presume that people working at these institutions have excellent insight and we expect GPIF to give us more opportunities to exchange opinions with such people through dialogues and forums. In particular, from the perspective of socially responsible investing, institutional investors' viewpoints are becoming more important, but we recognize that our company may partly lack an understanding from this perspective, because the market has not sufficiently developed in Japan. Through encouraging dialogues, we aim to enhance our company's understanding as well as institutional investors' understanding of the current situation of our company. [Machinery]

In meetings with the management of institutional investors, we hope to discuss our corporate vision, mid- to long-term strategy, governance and social responsibility, rather than detailed numerical data, with a view to deepening understanding on both sides. [Machinery]

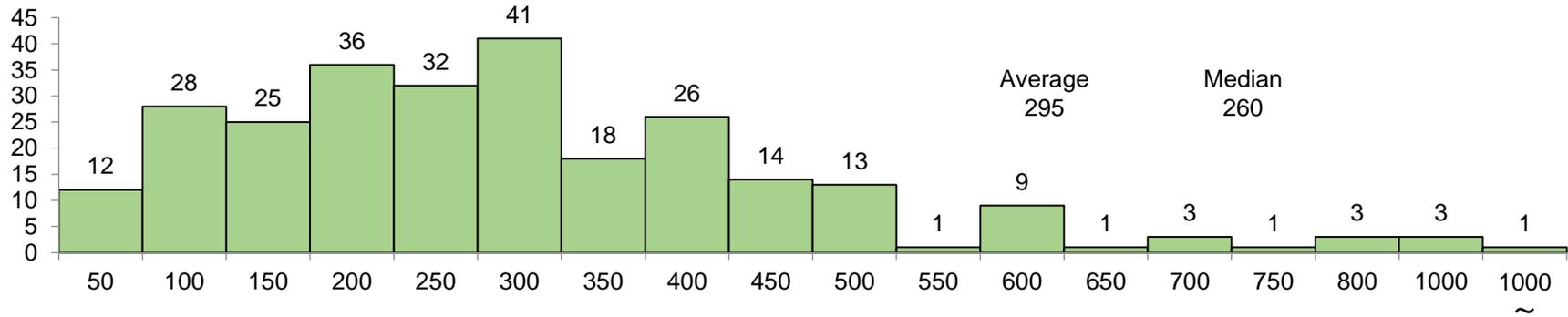
We expect institutional investors to assess the investee company's primary value and frankly discuss issues and make investment decisions from a long-term viewpoint.
We request that institutional investors strengthen their internal educational systems to train portfolio managers and analysts so that they can achieve constructive dialogues with investee companies.
We also request that institutional investors intensify the linkage between investment decisions and voting. [Electric equipment]

We expect investors as well to enhance disclosure. For example, we consider that investors should provide the issuing company with feedback information on the number of shares they hold and their voting decisions on agenda items at the shareholder meeting. [Rubber product]

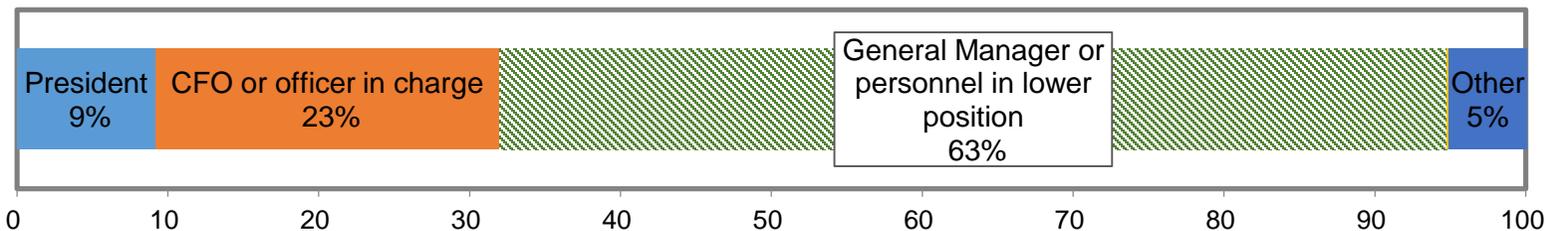
When institutional investors set a numerical or any other pro forma criterion for making voting decisions on agenda items at the shareholder meeting, they should ensure that they can make appropriate decisions through dialogues with investee companies, rather than making decisions depending only on whether the companies meet the pro forma standard. [Electric equipment]

Q8: With regard to IR meetings you hold with institutional investors, describe (1) the total annual number of meetings with institutional investors and (2) the approximate percent composition of attendees from your company at these meetings. (3) For what reasons do you choose attendees from your company?

(1) Total annual number of meetings with institutional investors

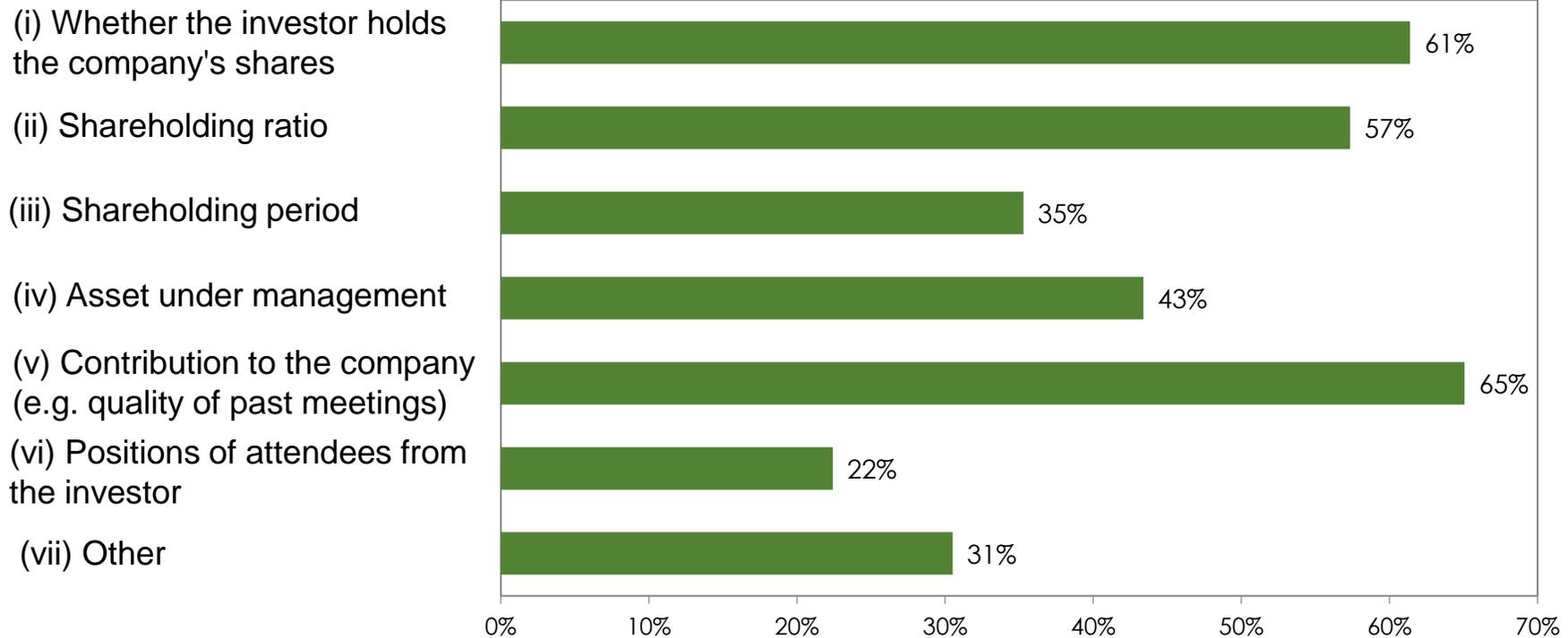


(2) Approximate Percent composition of attendees at meetings



<Continued from Q8>

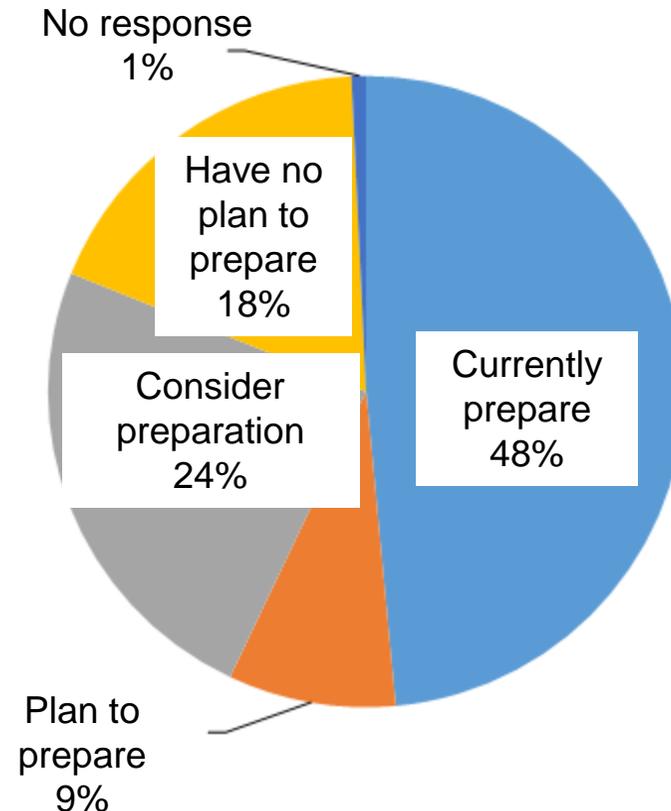
(3) For what reasons do you choose attendees from your company at meetings with institutional investors? (Multiple responses allowed)



■ The results suggest that companies choose their attendees at IR meetings with institutional investors strategically in consideration of factors such as whether the investor holds their shares, the shareholding ratio, and quality of past meetings.

Q9: Preparation of Integrated Reports or equivalent reports for institutional investors

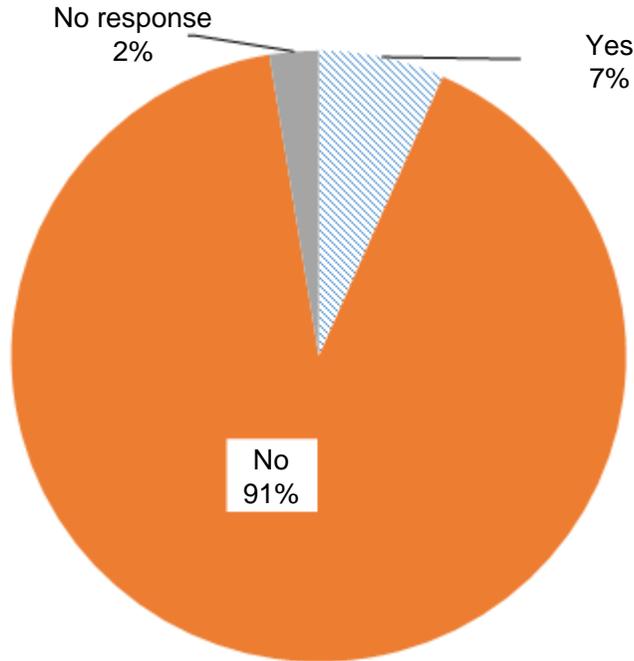
Do you currently prepare Integrated Reports or equivalent reports or plan to prepare these reports in the future?



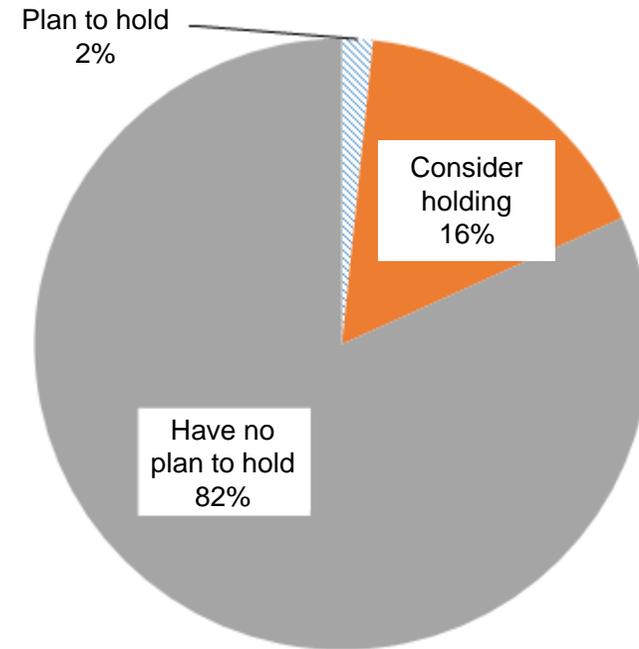
- Companies that currently prepare Integrated Reports and those planning to prepare or considering preparation of Integrated Reports account for three-fourths of all respondent companies.

Q10: Holding of presentation meetings for institutional investors focusing on ESG or CSR issues

(1) Do you currently hold ESG or CSR-focused presentation meetings?



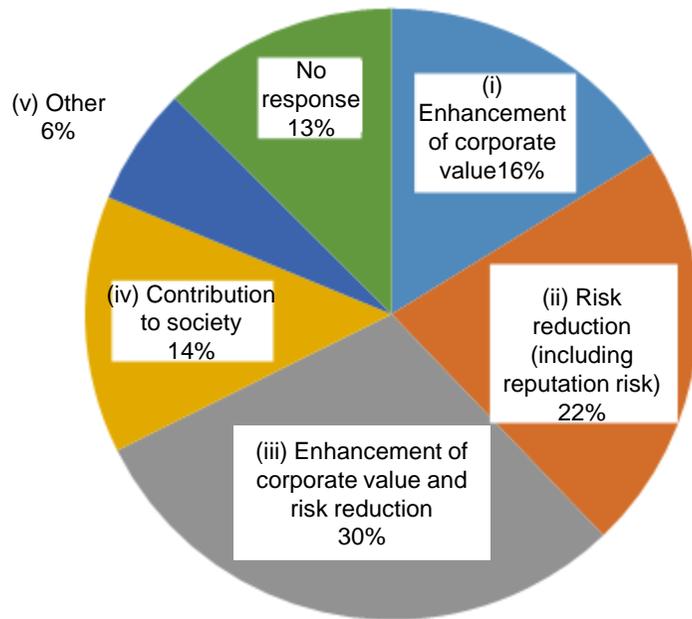
(2) Do you plan to hold ESG or CSR-focused presentation meetings? (specific to companies that currently do not hold such meetings)



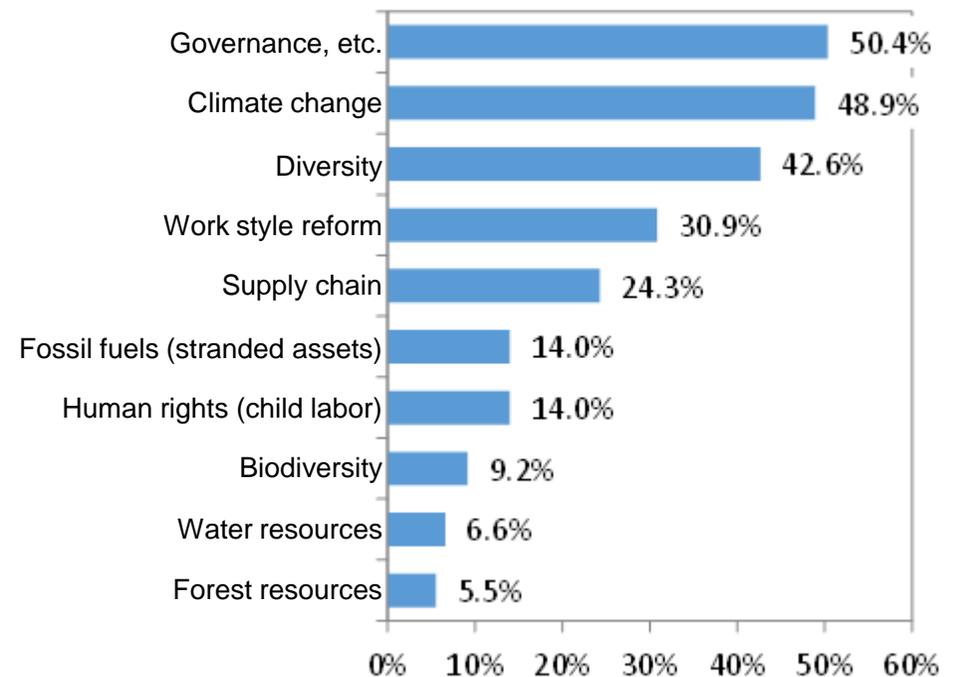
■ Currently, only a few companies hold presentation meetings focusing on ESG or CSR issues, and the percentage of those planning to hold such meetings is also small.

Q11: Objectives and major themes of ESG/CSR activities

(1) Objectives of ESG/CSR activities



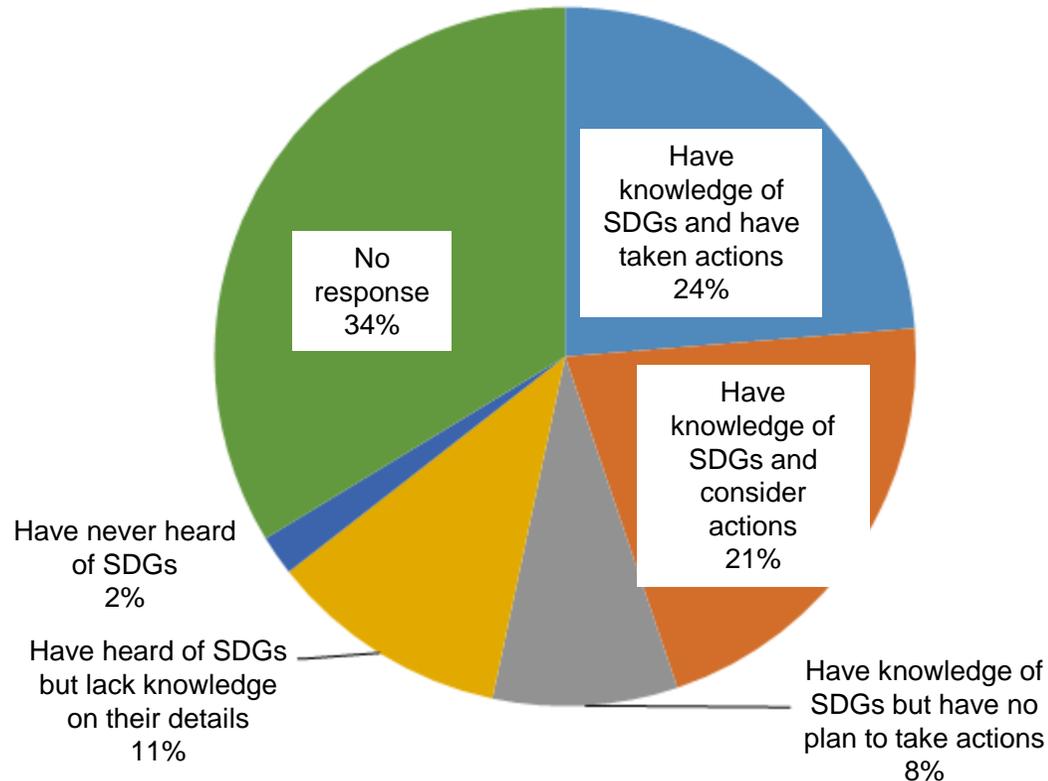
(2) Major themes (multiple responses allowed, up to three)



■ Frequent issues that companies adopt as themes of their ESG/CSR activities are those for which Japanese companies as a whole apparently have not yet taken sufficient measures as compared with companies in other countries, such as governance and diversity, etc.

Q12: Do you take actions to achieve sustainable development goals (SDGs)?

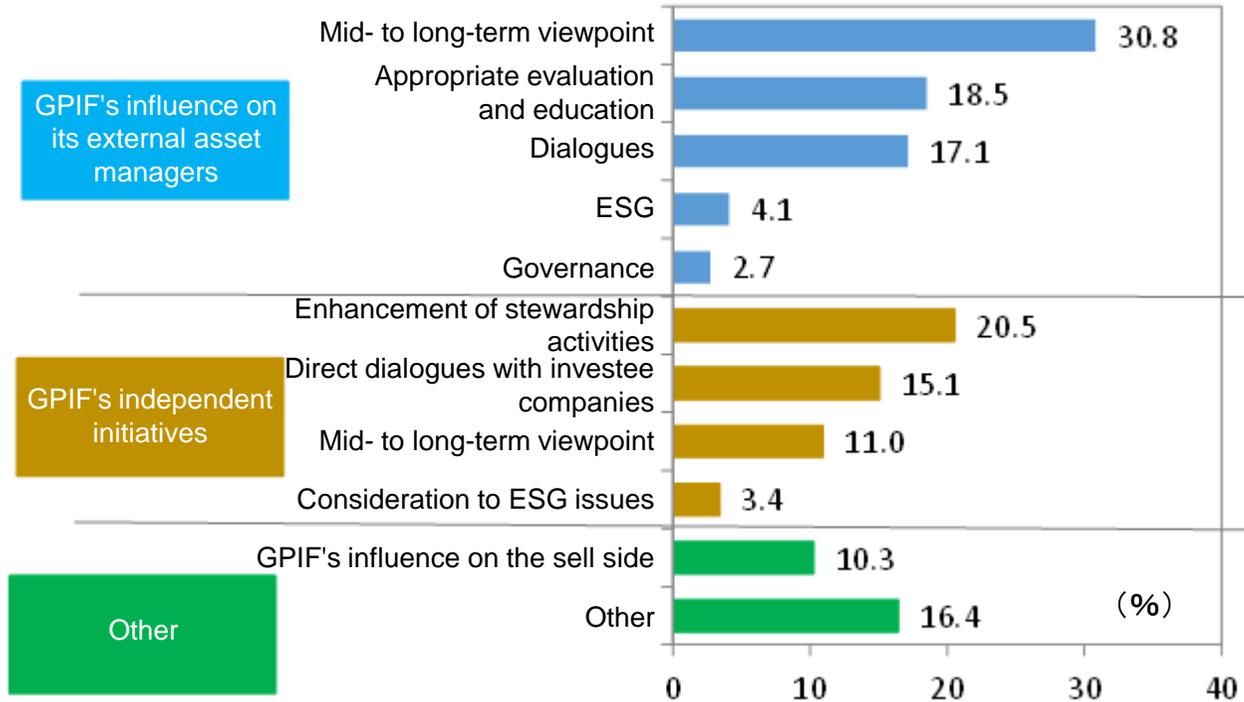
(1) Actions to achieve SDGs



■ While about one-fourth of all respondent companies have taken actions to achieve SDGs, those that lack knowledge on the details of SDGs or gave no response account for a larger share, which suggests that SDGs are not yet widely known.

Q13: What do you expect from stewardship activities carried out by GPIF as an asset owner?

Expectations for GPIF



(Note) Keywords cited from free descriptions in responses; multiple responses allowed

- Companies expect GPIF to encourage its external asset managers to conduct investment and dialogues with investee companies from a mid- to long-term viewpoint, and also expect it to take independent initiatives to enhance its stewardship activities and hold direct dialogues with investee companies more actively. Some companies also called for GPIF's influence on the sell side (securities companies) via its external asset managers.

Major responses

We expect GPIF to evaluate and support institutional investors that make investment decisions from a mid- to long-term viewpoint. In order to ensure proper evaluation, we suggest that GPIF should hold dialogues directly with investee companies to the greatest possible extent, in addition to gathering information by this kind of questionnaire survey. [Land transportation]

We expect GPIF to educate and train the Japanese buy side. We hope that GPIF will encourage institutional investors to carry out system reforms in terms of personnel evaluation so that we will be able to hold dialogues with investors that are capable of discussing investee companies' mid- to long-term strategy on an equal footing while holding their shares for a long period with conviction, rather than adopting short-termism or relying only on technical analysis. [Retail]

We expect GPIF to deepen its alliance with other asset owners at home and abroad and put more effort into taking initiatives to urge institutional investors to change their attitude toward dialogues with investee companies (e.g. digging deep into discussions on ESG issues that will contribute to enhancing mid- to long-term corporate value). We see that progress has not sufficiently been made thus far in this area. We also request that GPIF take into account opinions and views of both investors and issuing companies by holding Business and Asset Owner's Forum and Global Asset Owners' Forum. [Wholesale]

We consider that it is asset owners who provide funds that hold the key to break away from short-termism. We expect GPIF to shift the investment timeframe toward a mid- to long-term according to the principles under the Stewardship Code, and to also make a shift in its evaluation approach toward evaluating its external asset managers on the basis of their mid- to long-term investment results. [Food]

Companies are busy conducting various ESG research and disclosures information, while also promoting initiatives that take into account these evaluation items. At the same time, issuing companies incur considerable costs and assign necessary personnel to carry out these activities. Therefore, we frequently discuss how the information we have disclosed through such activities is actually being used and evaluated, and how much impact our disclosure would have on asset owners when they decide the allocation of their funds. We request that when GPIF conducts asset allocation, it should quantitatively indicate its method of taking ESG issues into consideration (the percentages of ESG integration and negative screening) and the amount of investment, thereby indicating the source of information it has relied on (e.g. search agency, index), and also clearly explain how it evaluates risks and returns in relation to ESG issues through engagement activities. Direct feedback from asset owners would be very meaningful to issuing companies. [Banking]

Major responses

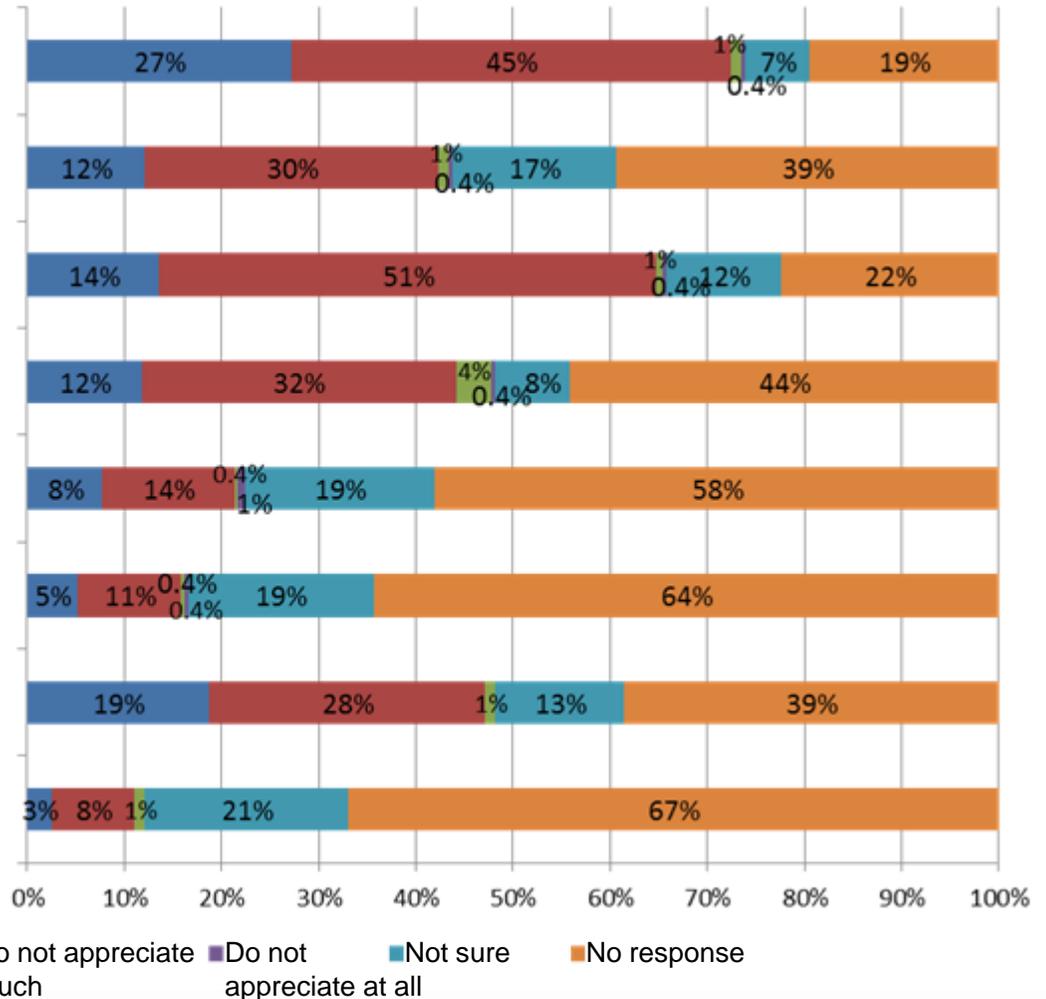
We expect GPIF to continue its efforts to develop an environment where issuing companies, institutional investors and asset owners can work together toward enhancing mid- to long-term corporate value. We understand that GPIF conducts this kind of questionnaire survey and holds the Forums from this perspective. We would be reassured if GPIF influences not only institutional investors but also the sell side. Companies recognize problems with their relations with sell-side analysts. If institutional investors change, sell-side analysts would change in due course, but we cannot miss the point that sell-side analysts are likely to be oriented toward short-termism (though we find some signs of gradual changes on the sell side). [Food]

Every time we see GPIF's quarterly investment results in media reports, we find a gap between the long-term viewpoint we wish GPIF to aim at and the media coverage. We consider that an asset manager will be able to carry out appropriate stewardship activities only after GPIF notifies and educates the media (the public) that they should have a long-term viewpoint. [Transportation equipment]

Progress in corporate governance cannot be made overnight. Similarly, to improve stewardship, efforts should be made step by step while taking a long time and gaining a consensus from various parties. In this sense, we request that GPIF hold constructive dialogues with its external asset managers, aiming to achieve improvement over a long term rather than a short term. Meanwhile, earlier studies on corporate governance have been conducted mainly in Europe and the United States, and we see few empirical studies on this topic conducted in Japan. We also hope that GPIF will support conducting case studies on this topic. [Information/communication]

Q14: Do you know any of the following initiatives that GPIF has carried out recently? Choose all options of the initiatives you know, and describe your rating and the reason.

- (i) Putting weight on stewardship activities in the evaluation of external asset managers
- (ii) Call for applications for ESG index for Japanese equities
- (iii) Questionnaire survey targeting JPX Nikkei Index 400 companies
- (iv) Publication of excellent Integrated Reports and Corporate Governance Reports
- (v) Holding Business and Asset Owner's Forum
- (vi) Holding Global Asset Owners' Forum
- (vii) Becoming a signatory to Principles for Responsible Investment (PRI) and activities through PRI
- (viii) Joining the U.K. 30% Club and the U.S. Thirty Percent Coalition



GPIF

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