Established on May 30, 2014
Revised on September 10, 2015
Revised on August 1, 2017
Revised on November 18, 2019
Revised on June 29, 2020

Policy to Fulfill Stewardship Responsibilities

Government Pension Investment Fund

1. Basic Policies

(1) Concepts on Stewardship Responsibilities

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

- As GPIF invests in most of its assets and exercises voting rights through its external asset managers (asset managers), it promotes constructive dialogues (engagement) between asset managers and investee companies which can contribute to the sustainable growth. GPIF will thus fulfill stewardship responsibilities by promoting engagement between asset managers and investee companies/issuers, 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 economy, which will eventually enhance investment returns.

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

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

<u>(2) Policies Concerning Initiatives Undertaken by GPIF</u>

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

- From the viewpoint of fiduciary responsibilities, GPIF shall examine various activities (such as ESG investment and relevant research and study, etc.) which are intended to maximize medium- to long-term investment return for the beneficiary.

<u>(3) Policies Concerning Initiatives Conducted by Asset Managers</u>

- GPIF shall require asset managers to comply with its "Stewardship Principles" and "Proxy Voting Principles". Should an asset manager decide not to comply with any of the principles due to the characteristics of its assets and/or investment styles, it is required to explain the rationale for the non-compliance to GPIF.

- GPIF shall continuously monitor the stewardship activities of asset managers, including their exercise of voting rights if they have, and proactively conducts dialogue (engagement) with them.

- In the comprehensive evaluation of asset managers, GPIF shall highly value asset managers' stewardship activities.

<u>2. Measures on Each Principle of the Code</u>

Principle 1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

- GPIF as an asset owner shall formulate the "Policy to Fulfill Stewardship Responsibilities" and disclose it.

- GPIF stipulates ESG investment and stewardship activities in its “Investment Principles”.

- GPIF has established and published its “Stewardship Principles” and “Proxy Voting Principles” for asset managers. GPIF also requires that asset managers to comply with these principles. Should an asset manager decide not to comply with any of the principles, it is required to explain the rationale for the non-compliance to GPIF. These principles require asset managers to considerate ESG.

- Regarding the implementation of stewardship activities including their exercise of voting rights by asset managers if they have, GPIF shall properly oversee asset managers on matters including those stipulated in its “Stewardship Principles” and “Proxy Voting Principles”, and proactively conduct dialogue (engagement) with them.

> Principle 2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

- Principle 2 will be implemented through asset managers, since GPIF will not directly exercise voting rights, etc., as described in Principle 3 through Principle 5, and conflicts of interest will not arise from the fulfillment of stewardship responsibilities. Specifically, GPIF has incorporated the rule on the “Management of Conflicts of Interest by Asset Managers”, into its “Stewardship Principles” and “Proxy Voting Principles” respectively, and shall look to the rule in the selection of asset managers or annual evaluation of their overall performance, thereby promoting engagement with them.

> Principle 3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
>
> Principle 4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

- Principle 3 and 4 will be implemented through asset managers, given that a) GPIF invests in most of its asset through asset managers, b) GPIF is required to take appropriate actions regarding the exercise of proxy voting and so on with due consideration in influencing on corporate management in the private sector under the Medium-term Objectives, and c) GPIF entrusts asset managers with the exercise of voting rights as described in the Principle 5. Specifically, GPIF has incorporated the rules on the "Policy for Stewardship Activities including Engagement" and the "ESG Integration into the Investment Process" into its "Stewardship Principles" and "Proxy Voting Principles" respectively.

- In addition, when selecting asset managers or conducting an annual evaluation of them, GPIF will check asset managers' understanding on investee companies, as well as their engagement with investee companies, by conducting interviews with asset managers, as necessary, and thus promote engagement activities with asset managers.

Principle 5.	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

- GPIF invests in equities through asset managers, and is required to take appropriate actions regarding the exercise of proxy voting and so on with due consideration in influencing on corporate management in the private sector in the Medium-term Objectives. Given this, GPIF will not directly exercise voting rights, and instead entrust asset managers with proxy voting, as specified in its concept on proxy voting in its "Stewardship Principles" and "Proxy Voting Principles" respectively. GPIF will require asset managers to submit and publish policies or guidelines for proxy voting.

- In addition, with regard to the disclosure of voting records for each investee company on an individual agenda item basis, GPIF will require the disclosure of such information to asset managers that actually make decisions on proxy voting. GPIF also requires that asset manager should disclose the rationale for their voting decision based one necessity and/or importance as appropriate. If the asset managers do not disclose such information, GPIF shall demand them to take the following actions instead of disclosure, while continuing to ask them for the disclosure and engage with them.

  (1) To express and disclose the statement that asset managers have no conflicts of interest with investee companies and their corporate groups.
  (2) To directly and accurately deliver the proxy voting results and the reasons for the decision,

to gain understanding of management of all companies voting rights were exercised to.

(3) To provide GPIF with a full report on the state of the above matter (2).

(4) To make sure to publicly disclose the proxy voting records which were aggregated by major categories of agenda, and clarify reasons for agenda having “Against” votes cast.

- GPIF will hold meetings with asset managers respectively every fiscal year to grasp their stewardship activities including the exercise of voting rights, and conduct comprehensive evaluation of them. The evaluation will include disclosure such as voting records for each investee company on an individual agenda item basis.

Principle 6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

- GPIF as an asset owner will periodically report policies and initiatives to fulfill its own stewardship responsibilities. As it is difficult to report to the beneficiary respectively, GPIF will report outlines that would be appropriate for public disclosure.

- Specifically, GPIF will disclose on the website the report of stewardship activities including the summary of the proxy voting between April to June when most annual general meetings are held (i.e., voting records aggregated by major categories of agenda) by asset managers. GPIF will also disclose, in each fiscal year’s annual report, initiatives to fulfill stewardship responsibilities including the summary of the proxy voting (i.e., voting records aggregated by major categories of agenda) by asset managers throughout the said fiscal year.

Principle 7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment as well as consideration of sustainability consistent with their investment management strategies.

- President and the Executive Managing Directors of GPIF will acquire appropriate ability and experience to fulfill stewardship responsibilities, recognize the importance of their roles and duties, and lead initiatives such as the development of the structure to promote stewardship activities. At present, GPIF has a dedicated team to undertake major roles below and will continue further enhancement of its ability to fulfill its stewardship responsibilities as appropriate.

(1) To study appropriate stewardship responsibilities of GPIF and specific action plans.
(2) To study analysis and evaluation on the stewardship activities which take into account ESG factors, including activities conducted by asset managers for all asset classes.
(3) To promote collaboration with domestic and international institutional investors and organizations relevant to the Principles for Responsible Investment (PRI).

- To attempt to fulfill its own stewardship responsibilities, GPIF as an asset owner will conduct appropriate oversight of stewardship activities performed by asset managers, including their exercise of voting rights if they have and ESG, and have proactive dialogue (engagement) with them.

- GPIF will endeavor to make stewardship activities more appropriate in the coming years by conducting a regular review of the implementation of each principle of the Code with a study of more suitable ways of stewardship responsibilities.