



Summary Report of the 4th Survey of Listed Companies Regarding Institutional Investors' Stewardship Activities

1. Purpose of the Survey

The Government Pension Investment Fund, Japan (GPIF) has conducted surveys targeting listed companies since 2016 in order to evaluate stewardship activities carried out by GPIF's external asset managers. The survey also seeks to ascertain the actual status of purposeful and constructive dialogue (engagement) between these companies and asset managers, as well as the changes that have been observed during the year since the previous survey.

We have engaged in dialogue with our external asset managers on an ongoing basis regarding their stewardship activities. However, taking this approach alone could result in one-way information gathering and lacking objectivity, we have made it another purpose of this survey to gather information from the other side, with a focus on how portfolio companies consider asset managers' engagement activities, thereby improving such activities.

2. Outline of the Survey

- Subjects: 2,129 companies listed on the First Section of the Tokyo Stock Exchange (as of December 20, 2018)
- Number of respondent companies: 604
- Response rate: 28.4%
- Survey period: From January 10, 2019 through February 20, 2019

3. Summary of the Survey Results (Significant Changes During the One Year)

<Increase in disclosure of ESG information by companies, and growth in institutional investors' interest and utilization of ESG information>

The results of this survey confirmed further increases in the number of companies that publish Integrated Reports and hold information sessions focused on ESG issues compared with the results of the previous survey. As for "institutional investors' use of Integrated Reports," 39.4% of the companies that publish Integrated Reports selected "They appear to use the reports more effectively than before," which indicated a significant increase from the 17.5% in the previous survey. In terms of the information sessions focused on ESG issues, the ratio of companies that stated that institutional investors are highly interested increased (the

ratio of companies that selected “Highly interested overall” was 40.6% in the previous survey and 54.4% in this survey). This indicated that positive changes have been observed by companies with regard to institutional investors’ interest and utilization of non-financial information.

<Recognition of SDGs was nearly 100%>

Recognition of SDGs (United Nations’ Sustainable Development Goals) further increased, with 96.7% of companies indicating that they “have knowledge of SDGs,” compared to more than 80% in the previous survey. The ratio of companies that stated that they “have taken action” also substantially rose to 44.7% (24% in the previous survey).

<Growing interest in climate change>

As for major themes in ESG activities by companies, 71.2% (up 3.8% from the previous survey) of respondent companies selected “corporate governance” as the most significant theme, as was the case in the previous survey. Meanwhile, the theme with the most significant changes from the previous survey was “climate change,” with 45.5% (up 9.2% from the previous survey) of companies indicating it as the major theme. This indicated that the significance of measures against “climate change” issues has substantially grown during the past year.

4. Comments from Norihiro Takahashi, President of GPIF

We consider that carrying out engagement activities from a long-term perspective is important for enhancing medium- to long-term corporate value. We encourage ~~those institutions serving as~~ our external asset managers to act in line with this policy. In engagement, disclosure of ESG information, such as Integrated Reports, is extremely important for efficiently understanding not only the financial information of investee companies but also non-financial information, including their long-term views and policies.

The results of this survey indicate that there has been a virtuous circle, where the disclosure of non-financial information of investee companies including ESG information has further increased, and more and more investors have been utilizing such information. We expect that institutional investors will continue to conduct high-quality dialogue with investee companies that will further benefit the both sides in the future.

We sincerely appreciate all companies that participated in this survey and provided us with valuable opinions. We will continue our efforts to improve our stewardship activities, as well as activities carried out by our external asset managers, by undertaking further surveys and interviews with investee companies.

(Reference) Summary of the Survey Results (Overall)

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

- With regard to changes in the attitudes of institutional investors at IR meetings, etc. during the past year, 40% of companies considered such changes to be desirable.
- While approximately 70% of companies presented their long-term vision in dialogue with institutional investors, many of them considered the period of the medium-term management plan as the period of the long-term vision, with the majority of companies indicating their assumption period of approximately three to five years. However, the number of companies that indicated their assumption period of ten years

or longer increased compared to the previous survey.

- With regard to institutional investors' preparation for IR meetings and the use of Integrated Reports, positive responses, such as "Institutional investors take more time than before to make preparations for IR meetings, thereby improving the quality of the meetings" and "They appear to use the reports more effectively than before," increased compared to the previous survey. Especially in terms of the use of Integrated Reports, the companies that selected "They appear to use the reports more effectively than before" significantly increased to 39.4% (17.5% in the previous survey). Meanwhile, as for the use of Corporate Governance Reports, the number of companies that selected "They appear to use the reports more effectively than before" slightly increased. We expect that more institutional investors will utilize the reports in the future.

■ Companies' IR and ESG Activities and Status of Disclosure (publishing Integrated Reports, holding presentation meetings)

- 72.4% of respondents voluntarily disclose non-financial information including ESG. Standards and guidelines that companies mostly refer to for the disclosure include the "GRI Guidelines or Standards" (40.7%), followed by IIRC's "International Integrated Reporting Framework" (33.3%), the "Environmental Reporting Guidelines" published by the Ministry of the Environment, the "Guidance for Collaborative Value Creation" published by the Ministry of Economy, Trade and Industry, and the "Guidelines for Investor and Company Engagement" published by the Financial Services Agency.
- The ratio of companies that publish Integrated Reports or equivalent reports exceeded 50% for the first time. In addition, among the respondents that did not yet publish such reports, approximately 60% stated that they are planning to publish them or are considering to do so, which indicates rapid spread of the making of Integrated Reports.
- While the ratio of companies that hold information sessions focused on ESG and other issues was 8.4%, it shows a gradual rise. In addition, 54.4% of companies indicated that institutional investors are highly interested in these sessions (compared to 40.6% in the previous survey); interest among institutional investors has significantly grown during the past year.

■ Evaluation by Companies Concerning Three ESG Indices Selected by GPIF

- 55% of companies considered the selection of environmental indices positively. While most of the medium- and large-cap companies selected "Appreciate" for the rating of the index selection, most of the small-cap companies selected "Not sure." As for the reasons for their positive evaluations, many companies cited the design of indices that encourages information disclosure, the disclosure of evaluation methods, adoption of positive screening, disclosure of components, etc.
- While the ratio of companies that selected "There have been changes in ESG awareness, organizational structures, and activities within the company" was higher at large-cap companies as in the previous survey, more small-cap and medium-cap companies cited a number of changes compared to the previous

survey.

- Companies that conduct dialogue with MSCI and FTSE account for a quarter of all respondents. We assume that the less companies have conducted dialogue with S&P (Trucost) because the evaluation items for the company's environmental indices are focused on carbon efficiency, etc.

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

- Many companies expect GPIF to: (i) encourage its external asset managers and securities companies through its external asset managers to conduct engagement from a long-term viewpoint; (ii) promote changes in the systems (human resources, evaluation, etc.) of its external asset managers that will contribute to engagement with companies from a medium- to long-term perspective and the establishment of ESG; (iii) promote ESG investment and direct and indirect stewardship activities that will involve small-cap companies; and (iv) encourage ESG evaluators to enhance their governance.

End



Report of the 4th Survey of Listed Companies Regarding Institutional Investors' Stewardship Activities

Government Pension Investment Fund



May 2019

Outline of the Survey: Purpose and Results

1. Purpose

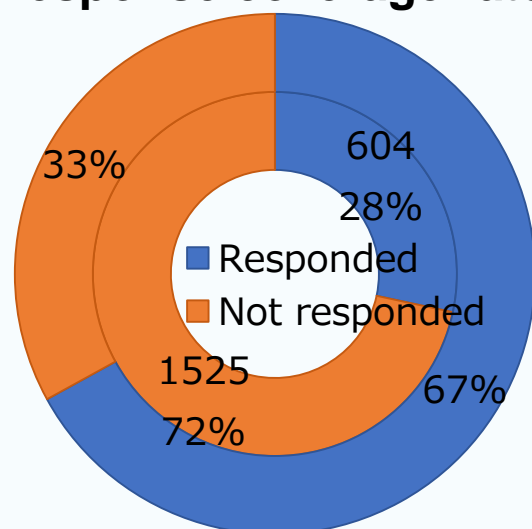
- To evaluate stewardship activities of GPIF's external asset managers and to ascertain the actual status of their purposeful and constructive dialogue (engagement) with investee companies as well as the changes that have been observed during the year since the previous survey.

2. Subjects

- Subjects: 2,129 companies listed on the First Section of the Tokyo Stock Exchange (TSE) (as of December 20, 2018)
- Number of respondent companies: 604 (previous survey: 619)

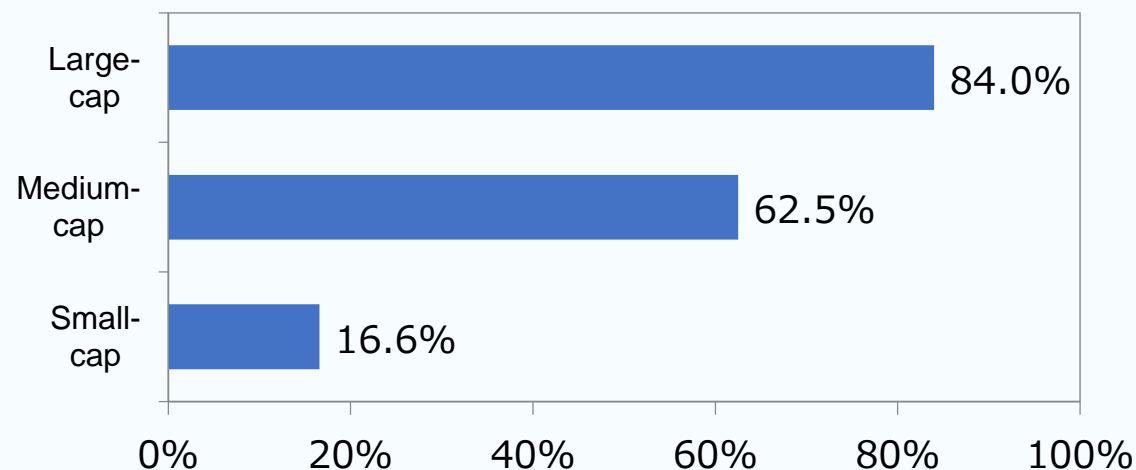
Response rate: 28.4 % Survey period: From January 10 to February 20, 2019

<Response coverage rate>



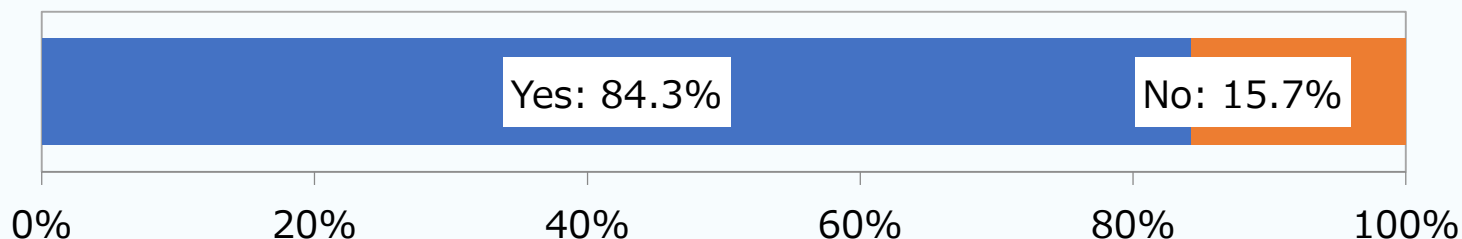
*Inside: based on number of companies
Outside: based on market cap

<Response rate by company size>

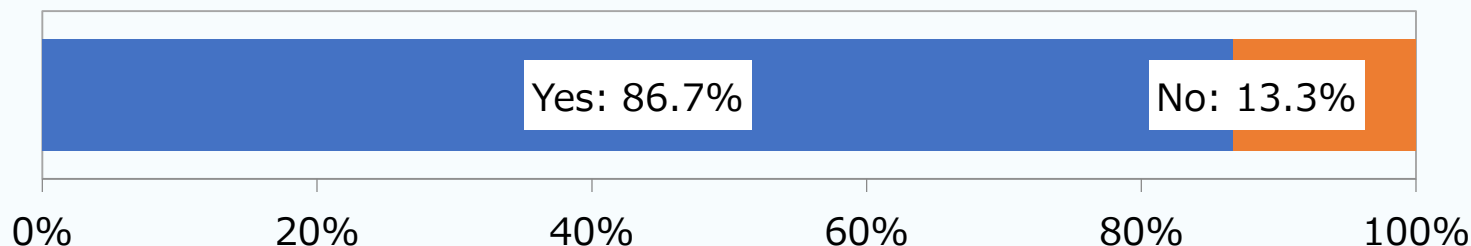


<On Previous Survey (Conducted in January 2018)>

Q1: Did you know about the previous survey?



Q1-1: If you selected “(i) Yes” in the previous question, **did you look at the survey results which are available on GPIF’s website?**



Q2: **Select what you found useful among the results of the previous survey. (Multiple responses allowed)**

(i) Current situation and changes in the attitude of institutional investors	46.5%
(ii) Expectation for institutional investors in pursuing enhancement of corporate value and sustainable growth over the medium- to long-term	45.0%
(iii) Status of IR activities, ESG activities and disclosure (status of preparation of Integrated Reports, holding of information sessions, actions taken to achieve SDGs)	60.9%
(iv) Expectation for stewardship activities by GPIF as asset owner	26.3%

*The percentage indicates the ratio to total responses out of 604 companies.

Summary of Survey Results I : Current Situation and Changes Observed for Institutional Investors, including GPIF's External Asset Managers

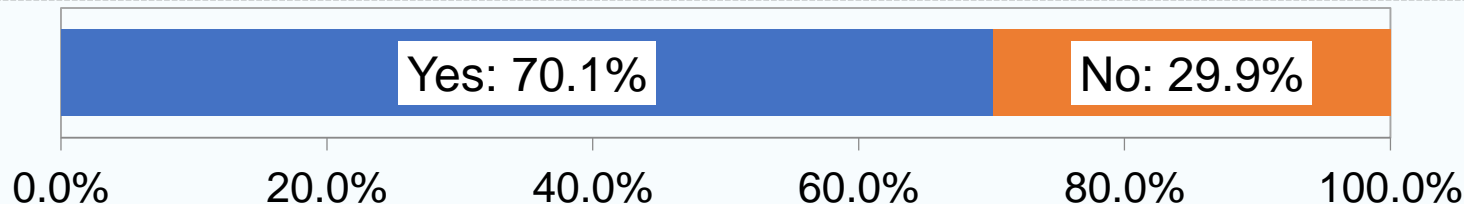
- ❑ With regard to changes in the attitude of institutional investors at IR meetings, etc. for the past year, 40% of companies considered such changes to be desirable (p. 5).
- ❑ While approximately 70% of companies presented their long-term vision in the dialogue with institutional investors, many of them considered the period of the medium-term management plan as the period of the long-term vision as is, with the majority of companies indicating their assumption period as approximately three to five years. However, the number of companies that indicated their assumption period as ten years or longer increased compared to the previous survey (p. 5).
- ❑ In terms of institutional investors' timeframe for discussion at IR meetings, more than half of companies pointed out that institutional investors tend to adopt a medium- to long-term viewpoint for business strategy, as in the case of the previous survey (p. 6).
- ❑ With regard to institutional investors' preparation of IR meetings and use of Integrated Reports, positive responses, such as "They take more time than before to make preparations for IR meetings, thereby improving the quality of meetings" and "They appear to use the reports more effectively than before," increased compared to the previous survey. Especially in terms of the use of Integrated Reports, the ratio of companies that selected "They appear to use the reports more effectively than before" significantly increased to 39.4% (17.5% in the previous survey). Meanwhile, as for the use of Corporate Governance Reports, the number of companies that selected "They appear to use the reports more effectively than before" slightly increased, although overall results remained virtually unchanged from the previous survey. As Japan's Corporate Governance Code was revised last year, we expect that dialogue using Corporate Governance Reports pursuant to the revised Corporate Governance Code will expand in the future, and thus, the reports will be utilized more effectively than before (p. 6, 7).
- ❑ In terms of collective engagement, only 8.1% of companies have experienced such an approach. As for advantages regarding collective engagement, most companies pointed out "effective use of time (62.6%)," which was followed by "grasping majority opinions." In terms of disadvantages regarding collective engagement, most companies stated that it becomes difficult to have a dialogue "when the level of understanding varies among institutional investors" (55.3%) and "when institutional investors have not coordinated their opinions sufficiently" (p. 8).

<On Institutional Investors Including GPIF's External Asset Managers>

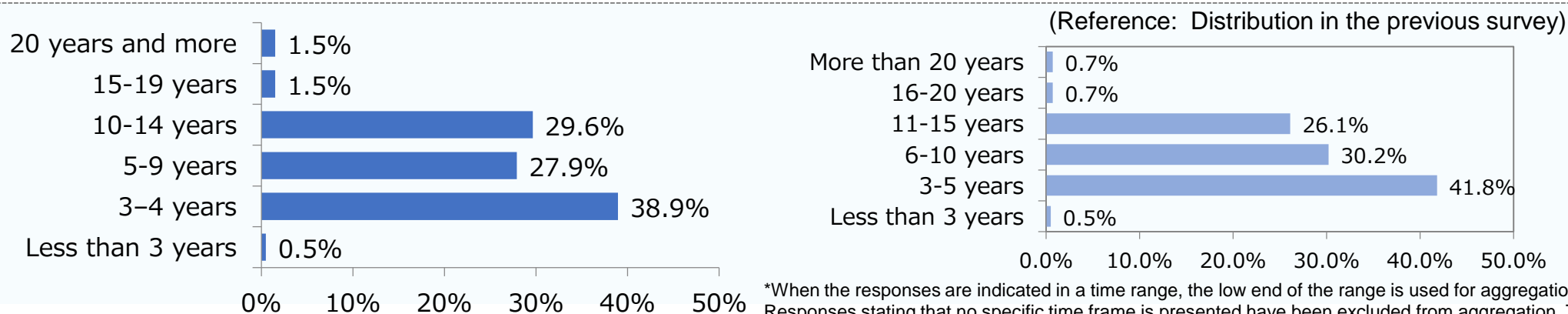
Q1: With regard to institutional investors as a whole, have you observed any changes in their attitude at IR/SR meetings during the past year?

(i) Observed desirable changes in all or the majority of institutional investors	3.5%	40% of companies observed desirable changes
(ii) Observed desirable changes in some institutional investors	37.1%	
(iii) Observed some changes but there has been bipolarization among institutional investors	13.8%	
(iv) Observed no significant changes in institutional investors	44.8%	
(v) Observed undesirable changes more in institutional investors	0.8%	

Q2: With regard to the dialogue with institutional investors as a whole, is your specific long-term vision disclosed to institutional investors?

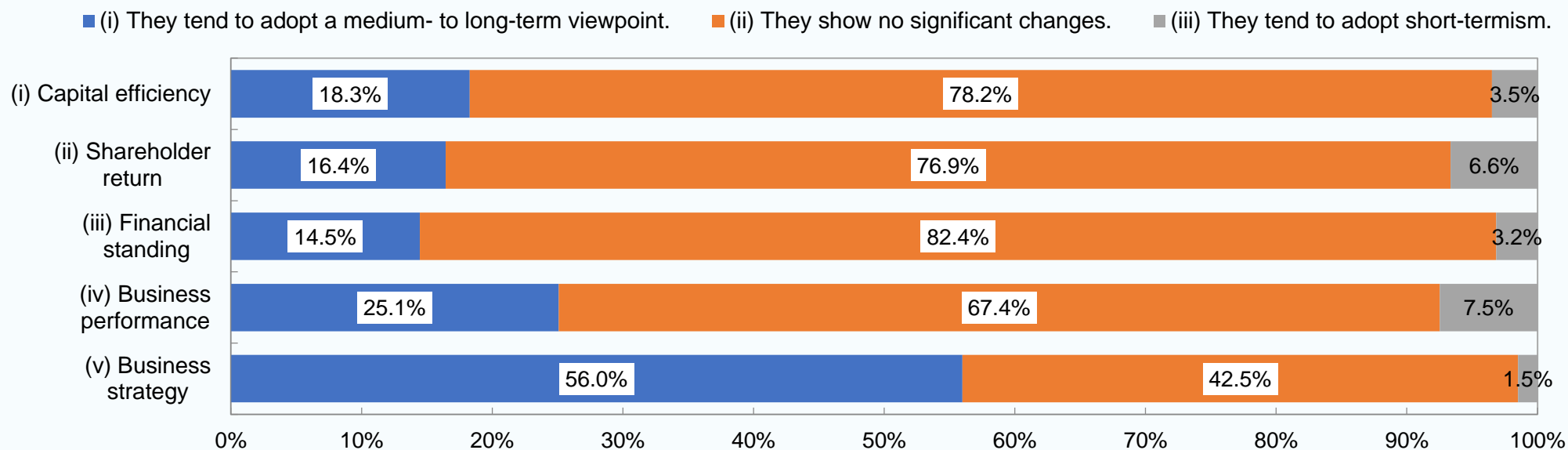


2-1: If it is disclosed, how long do you assume your long-term vision?

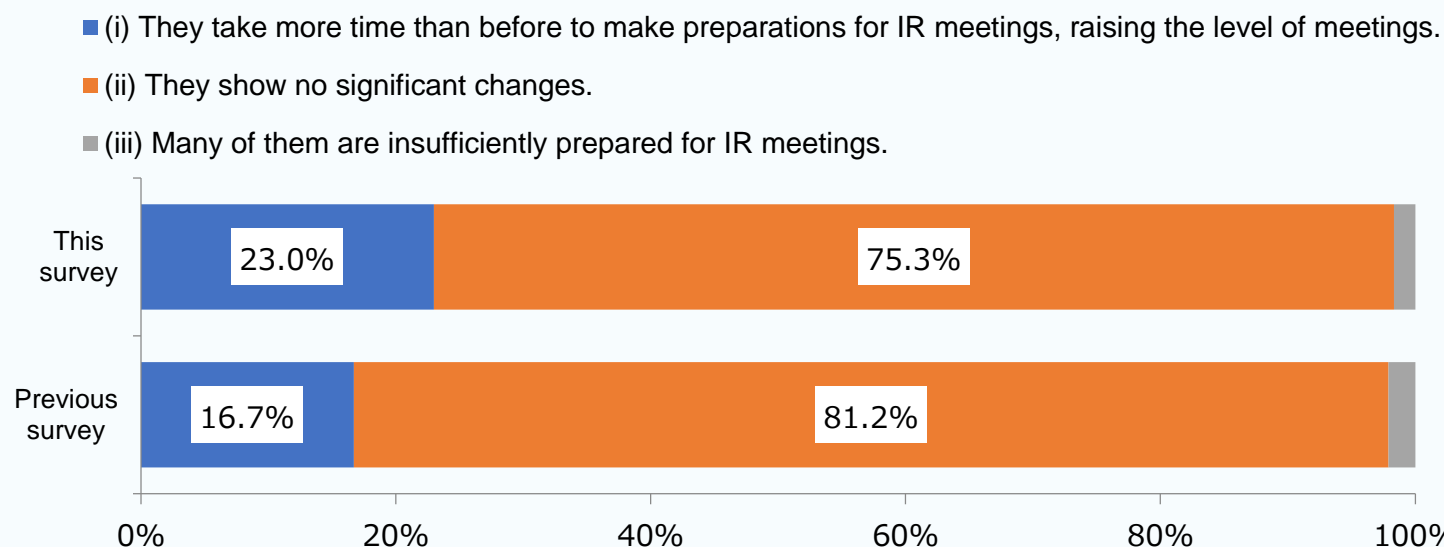


*When the responses are indicated in a time range, the low end of the range is used for aggregation. Responses stating that no specific time frame is presented have been excluded from aggregation. There were 388 valid responses (414 valid responses in the previous survey).

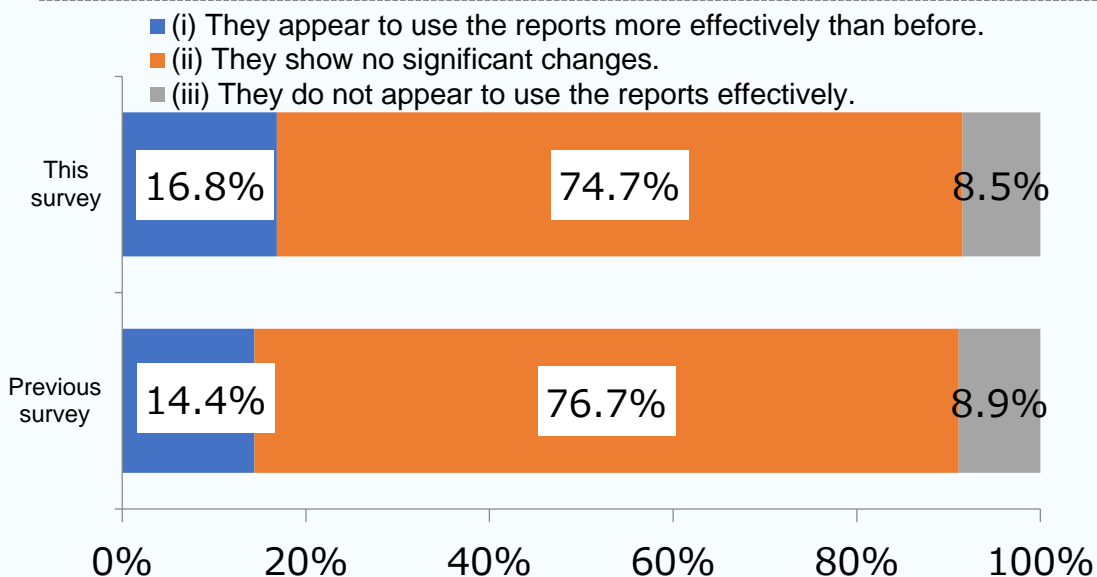
Q3: Choose the option that applies to institutional investors' timeframe for discussion on the following topics at IR meetings.



Q4: Institutional investors' preparation for IR meetings



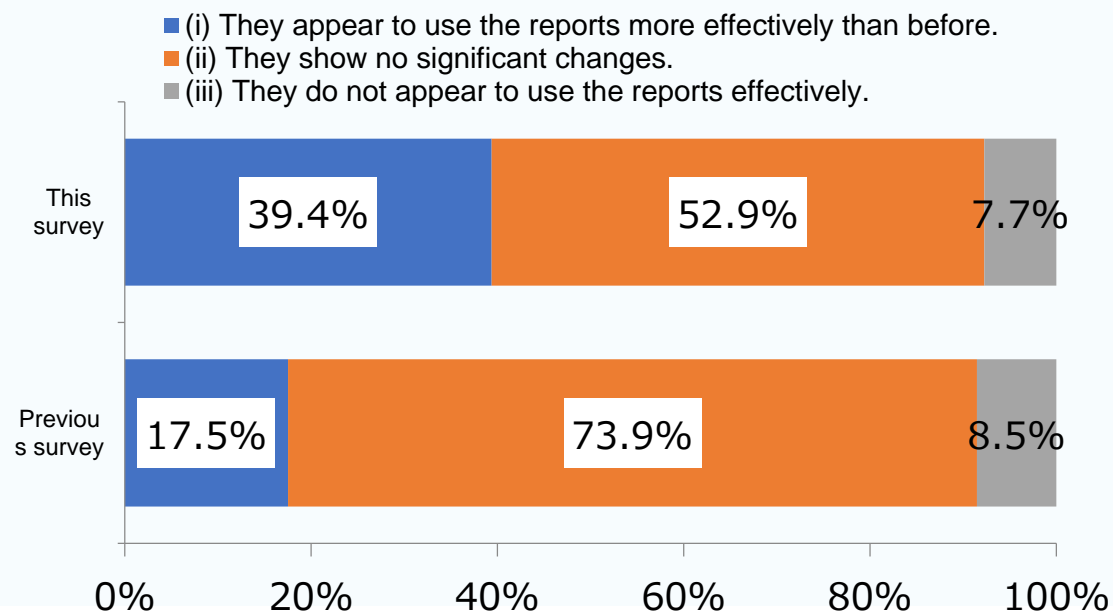
Q5: Choose the option that applies to the changes you have observed in terms of institutional investors' use of Corporate Governance Reports.



<Comments from companies that selected (i)>

- Whenever we submit updated reports, investors seem to acquire the latest versions and prepare questions based on them.
- While some institutional investors ask questions, the majority of investors do not mention topics on Corporate Governance Reports.
- When we had engagement with someone from the stewardship promotion office, the person provided an analysis based on comparisons with the Corporate Governance Reports of other companies. The personal explanations on strengths and weaknesses were very informative.
- I had in-depth discussions based on the descriptions in the Corporate Governance Reports including assessment of effectiveness of the board of directors, transparency of processes to determine officer remuneration, etc.

Q6: Choose the option that applies to the changes you have observed in terms of institutional investors' use of Integrated Reports. (Question applied only to those companies that prepare the reports)

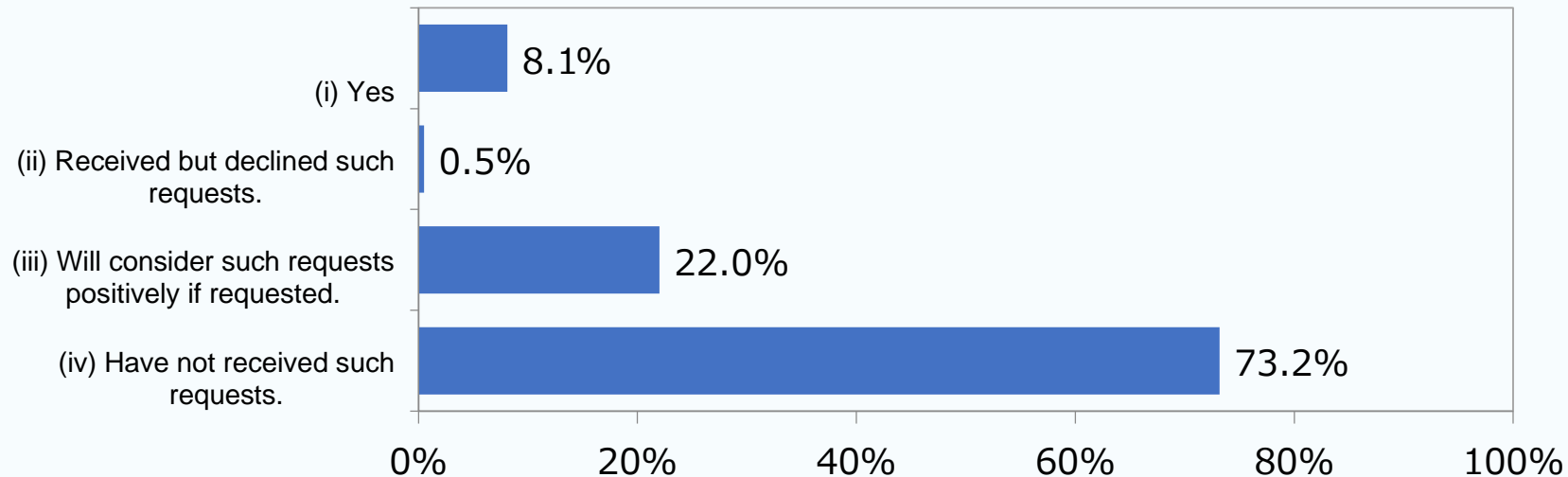


<Comments from companies that selected (i)>

- We receive many questions and opinions regarding our Integrated Reports. The usage of the reports as a dialogue tool has resulted in creating new dialogue opportunities and enhancing the quality of dialogue.
- We were asked by an investor who has been trying to quantify ESG elements about our definition of CO2 emission volume described in the Integrated Report. As the majority of questions from institutional investors regarding ESG elements are related to governance, it was the first time for us to receive a question on environmental elements.
- The number of comments on Integrated Reports has increased during IR meetings. Institutional investors who hold many shares tend to read the report in detail.
- The number of interviews on ESG themes and letters requesting ESG engagement has increased. There have been more discussions based on our Integrated Reports and opinions on further information disclosure through the Integrated Reports.

Q7: Japan's Revised Stewardship Code indicates that collective engagement could be beneficial in some cases.

1. Have you accepted collective engagement? (Multiple responses allowed)



2. What are your views on the pros and cons of collective engagement? (Multiple responses allowed)

<Pros>

(i) We (company) can save time or use efficiently by meeting multiple institutional investors at one time.	62.6%
(ii) The quality of dialogue may be improved by promoting competition among institutional investors.	20.2%
(iii) It enables us to grasp the majority opinions of institutional investors.	47.0%
(iv) We (companies) can develop common understanding with participating institutional investors.	37.4%
(v) Others (It enables to exchange opinions from diverse perspectives. Cannot provide comments due to limited or no experience, etc.)	1.5%

<Cons>

(i) It difficult to have dialogue when institutional investors have not been coordinated their opinions sufficiently.	47.7%
(ii) It is becomes difficult to have dialogue when the level of understanding varies among institutional investors.	55.3%
(iii) It is difficult to have candid dialogue due to the presence of other institutional investors.	37.1%
(iv) It is difficult to have dialogue due to pressure as a result of increased number of shares held.	4.0%
(v) Others (There are no particular disadvantages. Conversations may veer off topic depending on the skills of coordinator. Discussions may become broad but superficial as a result of differences in the areas of focus, etc.)	3.0%

Q8: What do you expect from institutional investors as a whole in pursuing enhancement of your corporate value and sustainable growth over the medium- to long-term?

[Comments (excerpts)]

- We would like institutional investors to compare and evaluate not only our current financial results but also our measures, progress and achievements from a medium- to long-term perspective.
- We believe that sharing what institutional investors focus on and how you utilize nonfinancial information will help to enhance the quality of disclosure.
- Companies still do not fully understand ESG, and the points that institutional investors want to know are not really clear. We think that providing explanations on why institutional investors want to know certain information and why it is important during the interviews would help to encourage dialogue, instead of just asking questions to companies unilaterally. We would also like you to request the sell side to evaluate corporate value over medium- to long-term rather than based on short-term analysis (forecasts of quarterly financial results, etc.) Since financial results presentations are focused on questions from the short-term perspective mainly from the sell-side, we heard that even buy-side participants find them disappointing.
- It would be great if investors not only point out deficiencies in individual ESG measures as in the case of evaluation by ESG rating agencies (although we understand this is important) but also provide advice and engage in dialogue on fundamental corporate evaluations by focusing on the perspectives that will lead to the enhancement of medium- to long-term corporate value for our group.
- While the “differences in time frame” and “gaps between the ideal that is sought by investors and the reality faced by companies” have been mostly eliminated over the past few years, these are still challenges for both parties.
- As funds are evaluated based on their fund management performance for the year, we understand that (short-term) numerical analysis is necessary. While we provide the necessary number as an issuer, we would also like investors to direct your attention to communication on medium- to long-term strategies.
- Providing more explanations on how investors will utilize nonfinancial information will help us to consider what kind of information we should disclose and encourage us to make more proactive disclosures. In addition, during interviews with the management in particular, we believe that more constructive discussions are possible if you not only point out management issues but also comment on countermeasures therefor.
- Engagement team on the investors are heavily relied upon the staff in charge of so-called proxy voting (responsible investment departments). We would like to see responses in collaboration with the investment management department or analysts in research departments and fund managers with whom we have daily contacts in line with IR activities.
- To a certain extent, we highly evaluate that the framework to advance beneficial dialogue has been developed. On the other hand, the burden for disclosing similar matters by using multiple disclosure materials (due to differences in the competent ministers) has been increasing each year. We would like to know which disclosure materials are actually used by investors for enhancing dialogue with companies.
- As the basis for valid dialogue, institutional investors should also make adequate disclosures to companies. Specifically, profiles of investors, investment stance, information on share holding, details of proxy voting, themes for interviews, processes after interviews, etc. should be disclosed. While we currently respond to interview requests from institutional investors even when their intentions are not clear, we would like to see their efforts as well in order to develop trusting relationships as the basis of dialogue.
- Since sometimes we haven't realized issues until we are asked, we want institutional investors to keep on asking questions without dismissing the prospect by thinking that it is no use asking questions to small-cap companies.

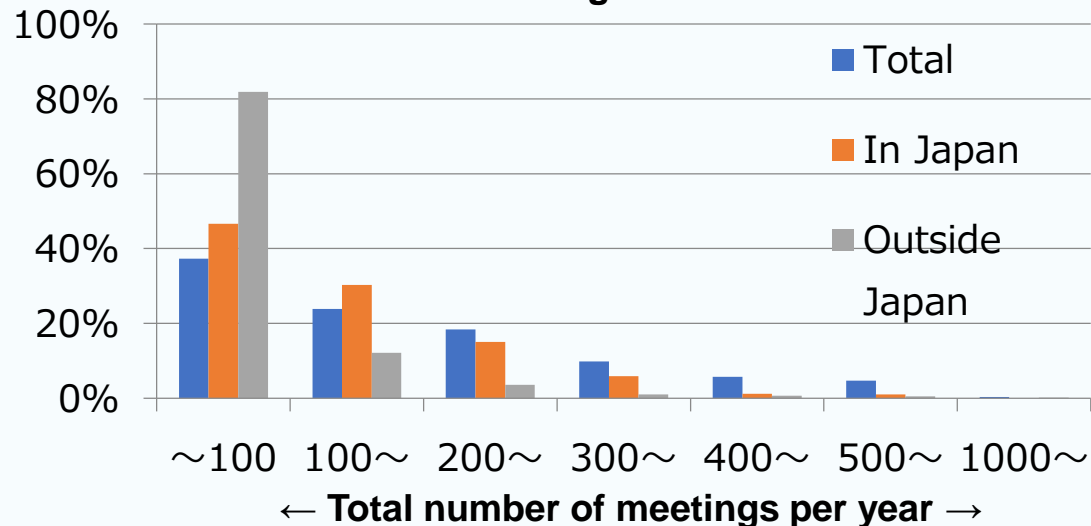
Summary of Survey Results II : IR and ESG Activities of Your Company

- ❑ Over 50% of respondents stated that they decide on the attendees members of IR meetings based on the shareholding ratio and the quality of past meetings, respectively (p. 11). At the same time, more than 30% of companies hold IR meetings targeting fixed income investors, and more than half of such meetings are organized by departments other than ordinary IR departments (such as accounting/financial departments, co-organized by accounting/administration departments and the IR department) (p. 12).
- ❑ 72.4% of respondents voluntarily disclose non-financial information including ESG (by CRS Reports, Sustainability Reports and Integrated Reports). Standards and guidelines that companies mostly refer to for the disclosure include the “GRI Guidelines” or “GRI Standards” (40.7%), followed by IIRC’s “International Integrated Reporting Framework” (33.3%) (p. 13).
- ❑ Explanations on non-financial information, such as ESG, continue to be provided mainly at financial results presentations and IR meetings. While only a few companies hold information sessions focused on ESG issues at this stage, institutional investors show great interest for these sessions (p. 14). In total, 112 companies are planning to hold or are considering holding such sessions in the future (p. 15).
- ❑ The ratio of companies that prepare Integrated Reports or equivalent reports exceeded 50% for the first time. Among the respondents that have not yet prepared such reports, approximately 60% stated that they are planning to publish or are considering to do so, which indicates rapid spread of the use of Integrated Reports (p. 16).
- ❑ As for major themes in the ESG/CSR activities, most companies listed issues that are common challenges for both companies and society, such as (i) corporate governance (71.2%), (ii) climate change (45.5%), and (iii) diversity (41.6%). For certain issues, the ratio is increased from the previous survey: 9.2% increase for (ii) climate change, 3.8% for (i) corporate governance, and 2.8% for (xv) capital efficiency. It indicates increased awareness of these issues among companies (p.18).
- ❑ Recognition of SDGs has been further increasing, with 96.7% of companies stating that they have knowledge of SDGs, compared to over 80% in the previous survey. The ratio of companies that have taken actions also saw a significant increase to approximately 45%, compared to 24% in the previous survey. More than 80% (more than 60% in the previous year) of companies have either taken actions or considered taking actions (p.19).

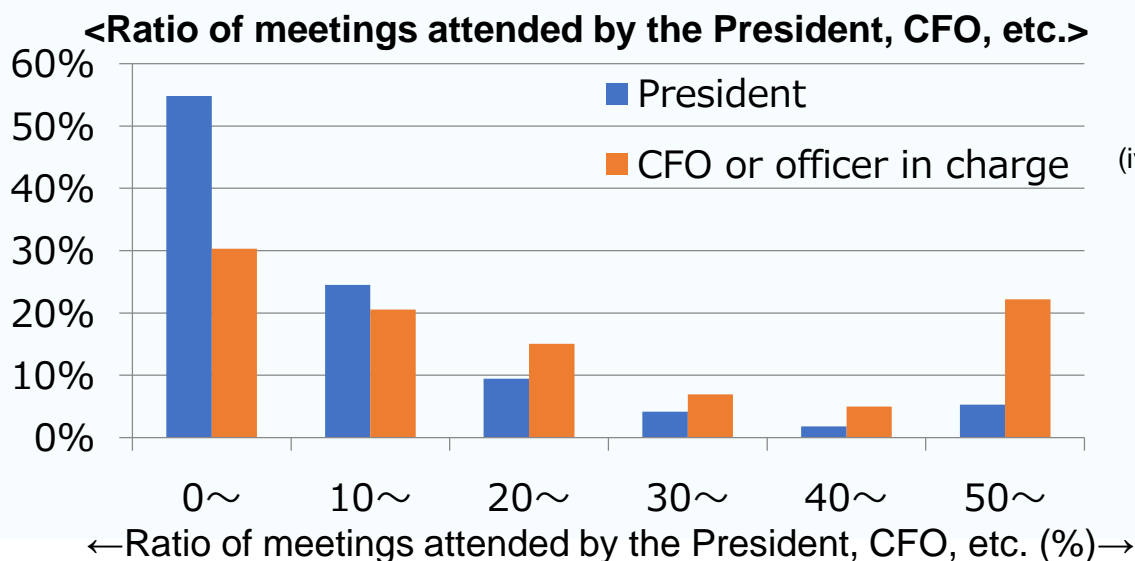
<On IR and ESG Activities of Your Company>

Q1: With regard to IR meetings you hold with institutional investors, describe (i) the total number of meetings with institutional investors per year and (ii) how often the President or CFO attend such meetings.

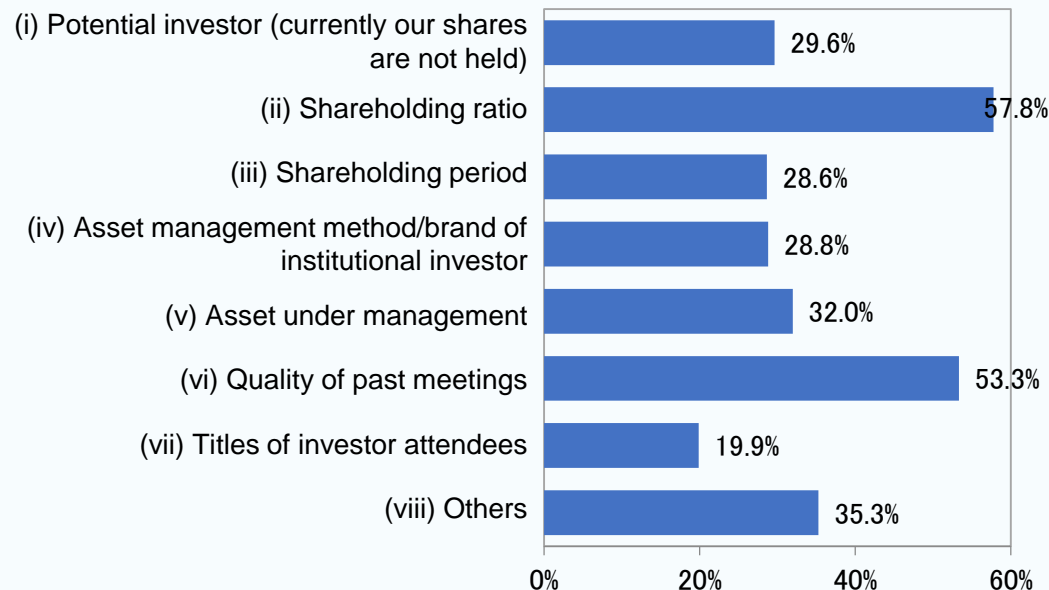
<Distribution of number of meetings with institutional investors> <Total number of meetings with institutional investors>



(Number of meetings)	Total	In Japan	Outside Japan
Maximum	1800	604	1300
Minimum	1	2	0
Average	179	127	51
Median	140	100	20

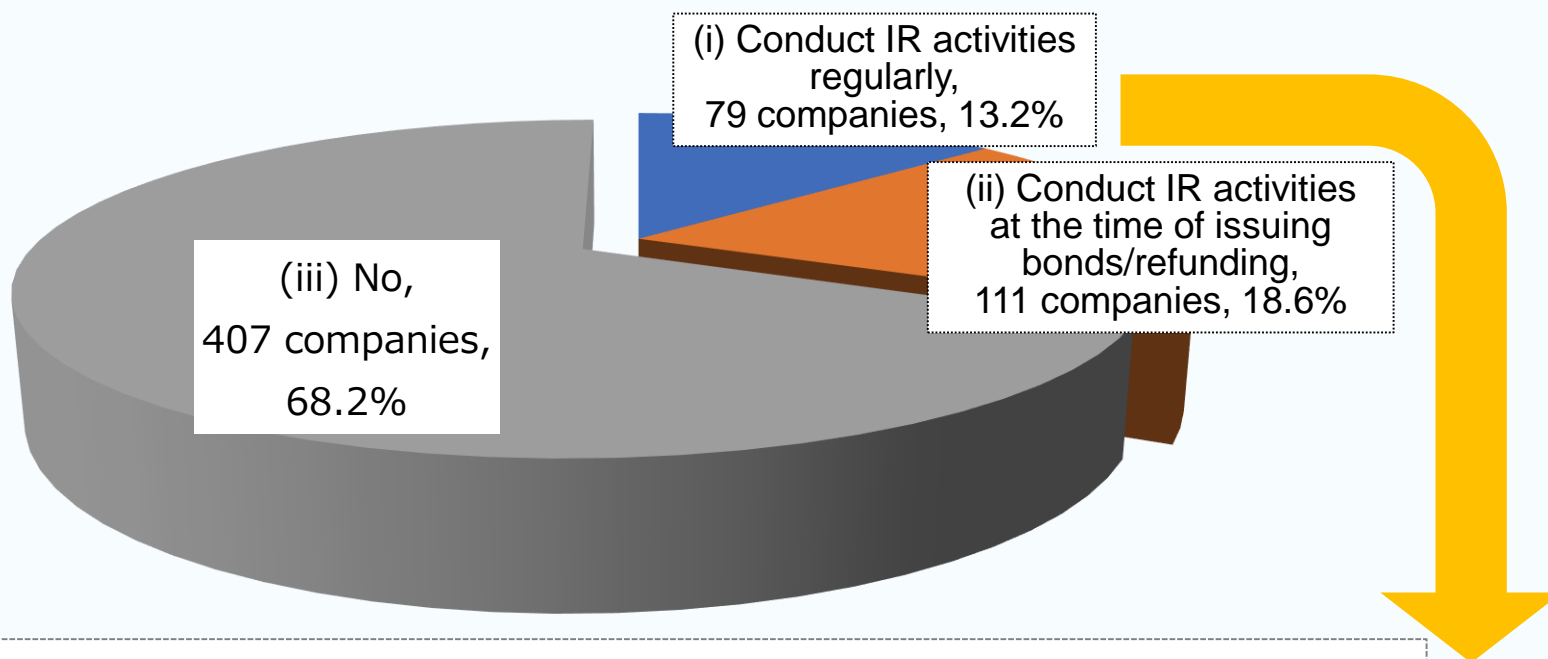


<How do you decide attendees from your company?>



*Multiple responses; ratio of the total number of companies

Q2: Do you conduct IR activities for fixed income investors?

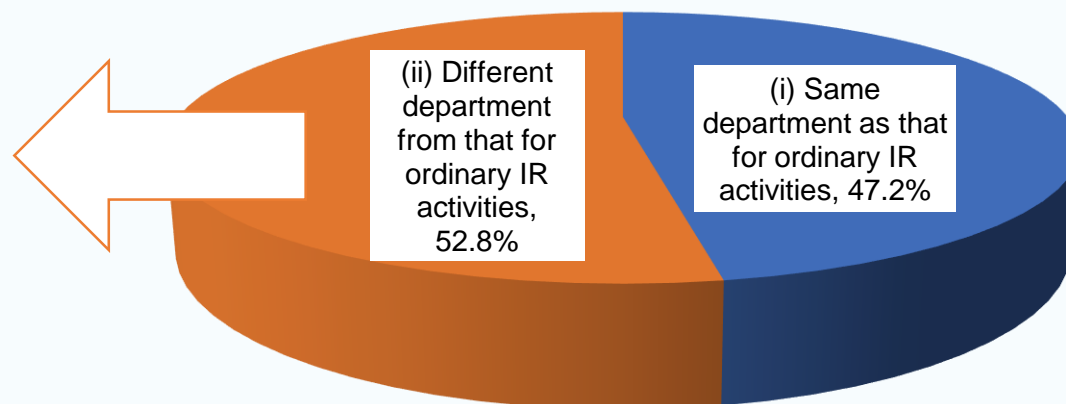


2-1 If you selected “Yes” for Q2, are IR activities conducted by the same department as ordinary IR activities?

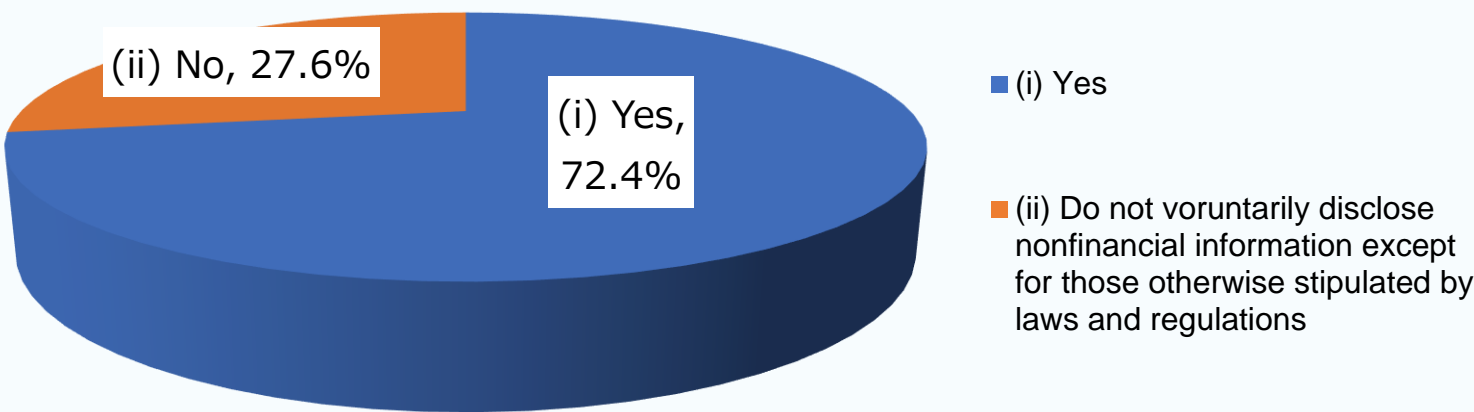
The majority are accounting/financial departments

Co-organized by the IR department and accounting/financial department

Corporate planning department sometimes conducts IR activities at the time of issuance of green bonds



Q3: With regard to the ESG activities (including disclosure) of your company, **do you voluntarily disclose non-financial information including ESG (preparation of CSR Reports, Sustainability Reports, Integrated Reports, etc.)?**



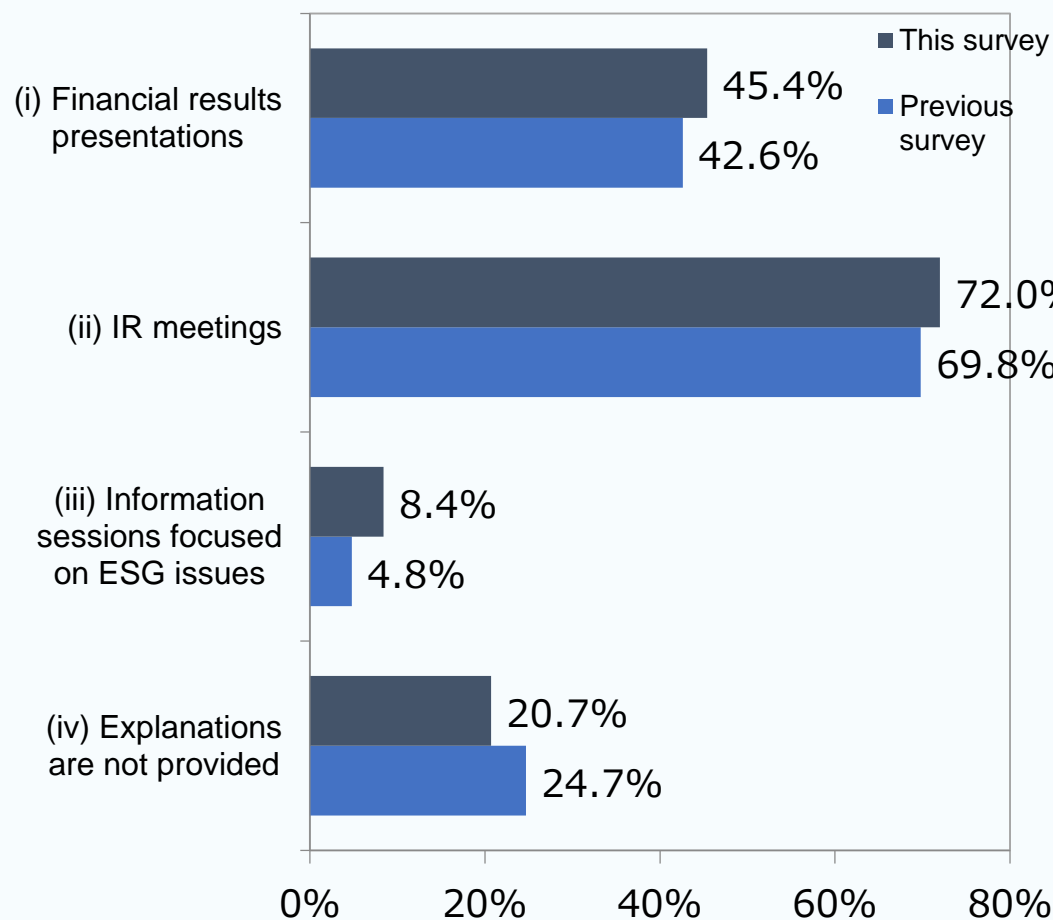
3-1 If you selected “Yes” for Q3, do you refer to any of the following standards and guidelines?



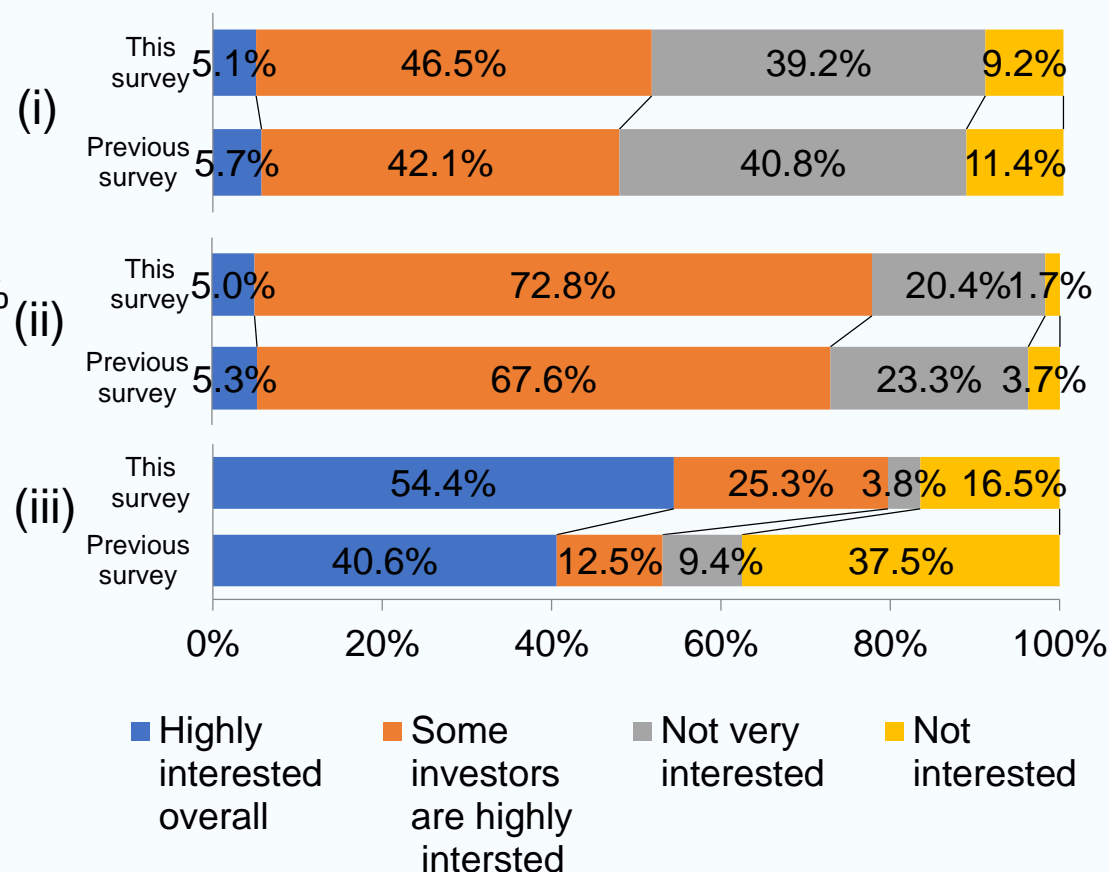
→ •ISO26000 "Guidance on Social Responsibility," the Ten Principles of the UN Global Compact, SDGs, Environmental Accounting Guidelines published by the Ministry of the Environment, methods adopted by ESG rating agencies, etc.

Q4: When do you provide explanations on non-financial information such as ESG to institutional investors? (Multiple responses allowed) If such explanations are provided, how do you rate the reactions of institutional investors?

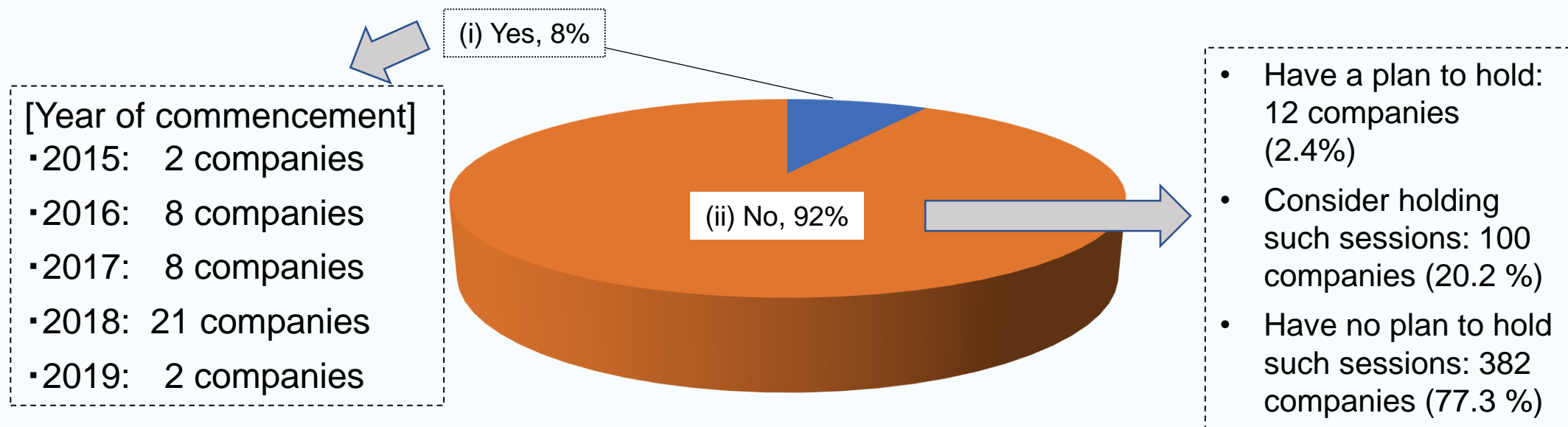
<Sessions where explanations on non-financial information are provided>



<Reactions of institutional investors>

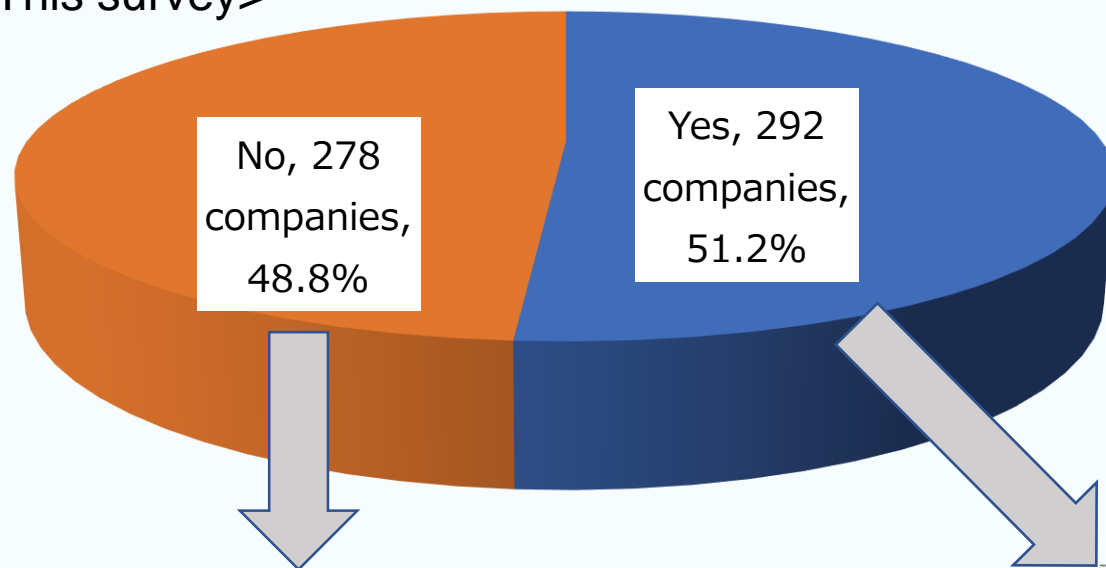


Q5: Do you currently hold information sessions focused on ESG issues for institutional investors?

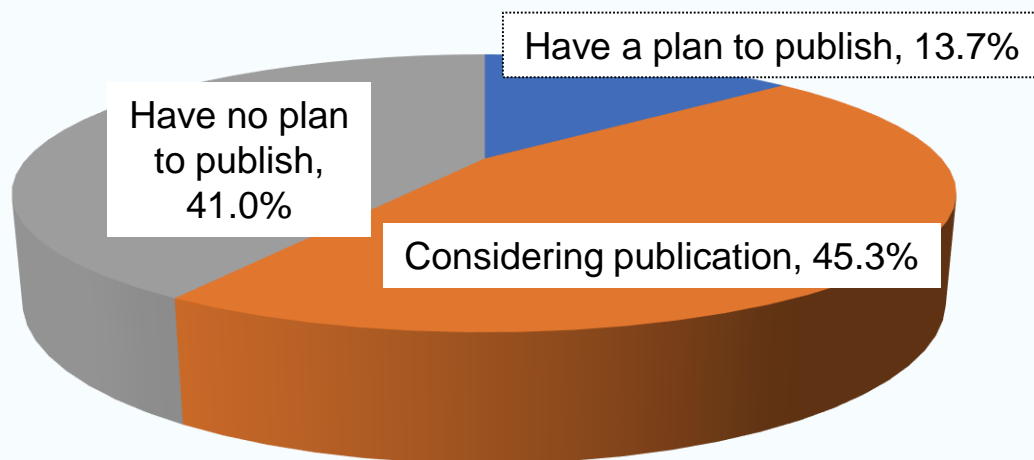


Q6. Do you publish Integrated Reports or equivalent reports for institutional investors?

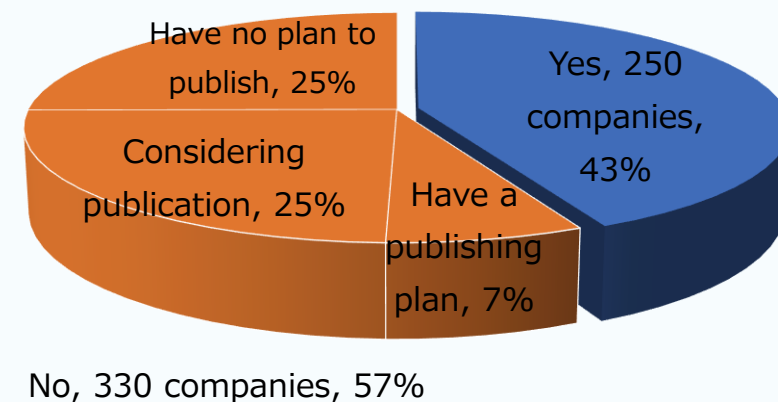
<This survey>



What is your future plan?

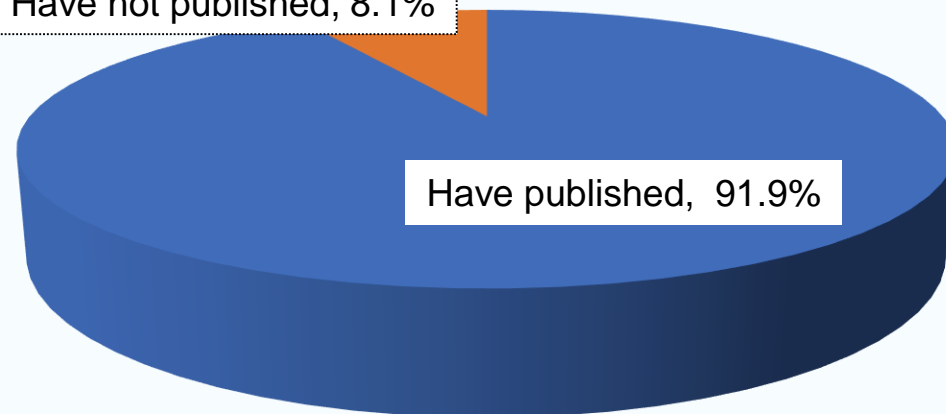


<Previous survey>

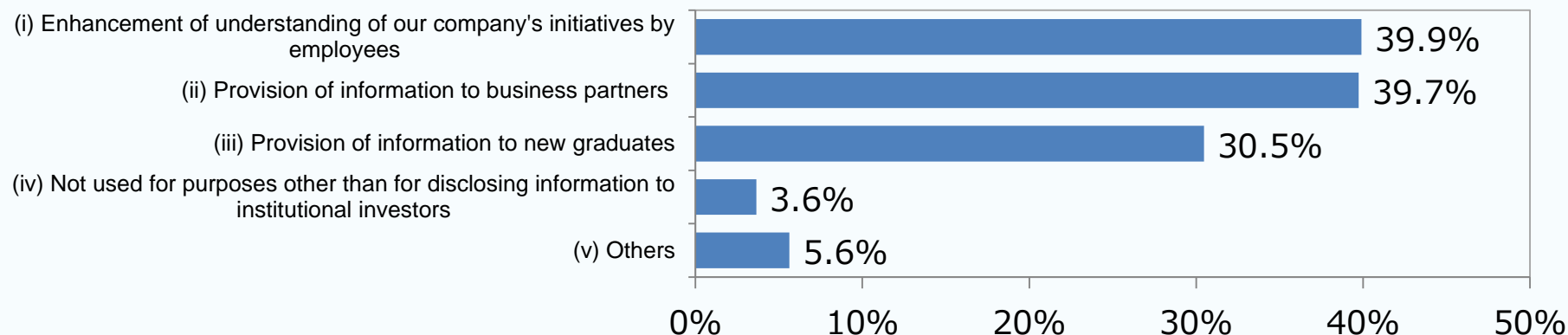


Have you published an English version?

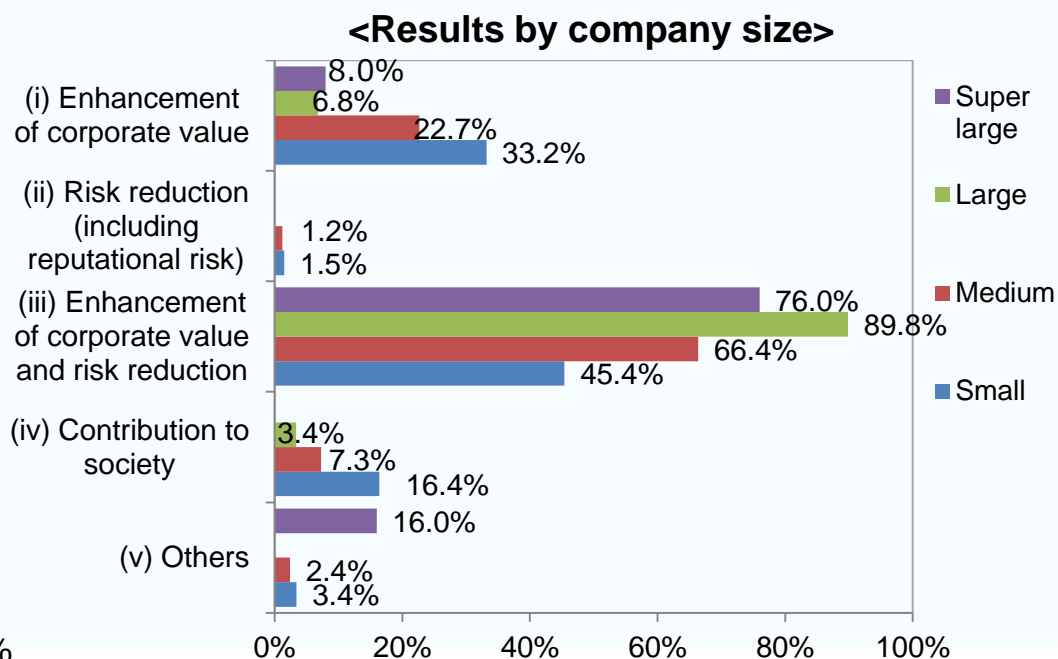
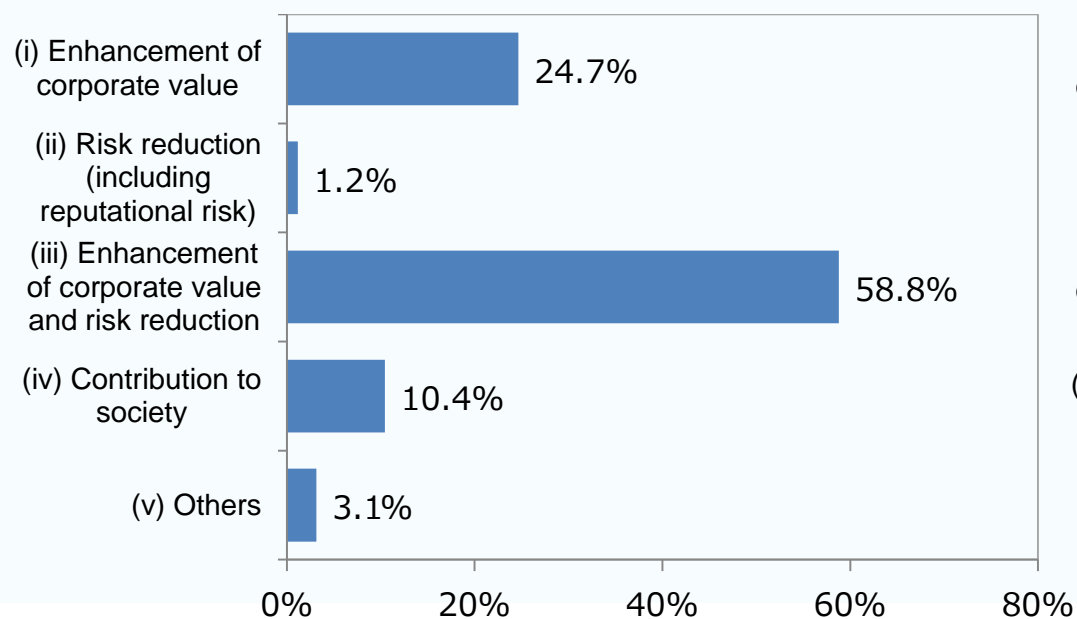
Have not published, 8.1%



Q7: For what purposes do you use Integrated Reports other than for disclosing information to institutional investors? (Multiple responses allowed)



Q8: What are the objectives of the ESG activities of your company?



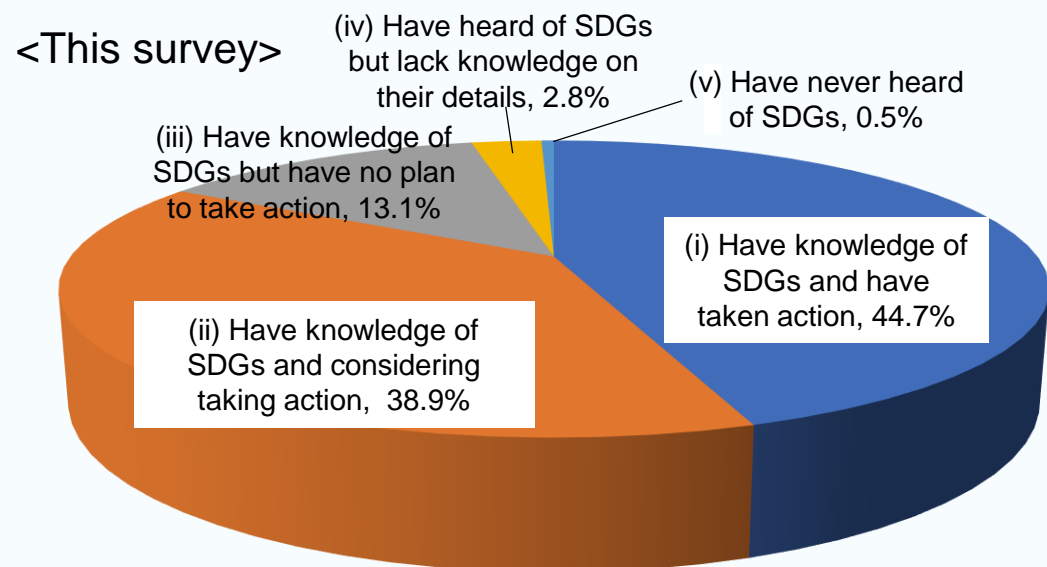
Q9: What are the major themes of the ESG activities of your company (Multiple responses allowed, up to five)

This survey (Rank)	previous survey (Rank)	Theme	This survey (%)	Previous survey (%)	Change
1	1	Corporate Governance	71.2%	67.4%	+3.8
2	3	Climate Change	45.5%	36.3%	+9.2
3	2	Diversity	41.6%	43.0%	-1.4
4	4	Human Rights & Community	34.4%	33.8%	+0.6
5	5	Health & Safety	33.3%	32.5%	+0.8
6	6	Product Liability	32.0%	30.5%	+1.5
7	7	Risk Management	27.5%	26.7%	+0.8
8	8	Disclosure	21.2%	21.5%	-0.3
9	9	Supply Chain	16.9%	17.9%	-1.0
10	10	Board Structure, Self-evaluation	15.4%	14.2%	+1.2

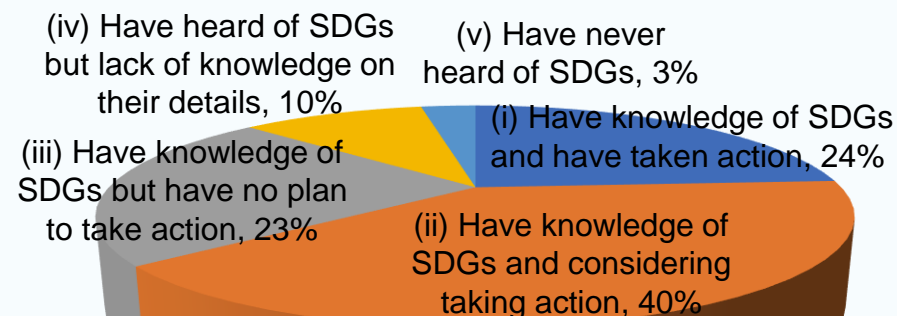
*Companies select up to five themes out of 25 themes listed above.

This survey (Rank)	previous survey (Rank)	Theme	This survey (%)	Previous survey (%)	Change
11	11	Pollution & Resources	14.1%	14.1%	±0
12	12	Environmental Opportunities	11.4%	12.3%	-0.9
13	13	Waste Management	11.1%	11.1%	±0
14	14	Labor Standards	10.6%	10.7%	-0.1
15	18	Capital Efficiency	9.1%	6.3%	+2.8
16	15	Water Stress & Water Security	8.6%	8.6%	±0
17	16	Social Opportunities	5.6%	7.4%	-1.8
18	17	Biodiversity	5.1%	7.1%	-2.0
19	19	Deforestation	4.8%	5.5%	-0.7
20	21	Misconduct	3.1%	2.3%	+0.8
21	20	Anti-Corruption	2.5%	3.7%	-1.2
22	22	Minority Shareholder Rights	1.0%	0.8%	+0.2
23	23	Controversial Metals	0.7%	0.6%	+0.1
23	24	Tax Transparency	0.7%	0.5%	+0.2
25	25	Others	9.4%	13.2%	-3.8

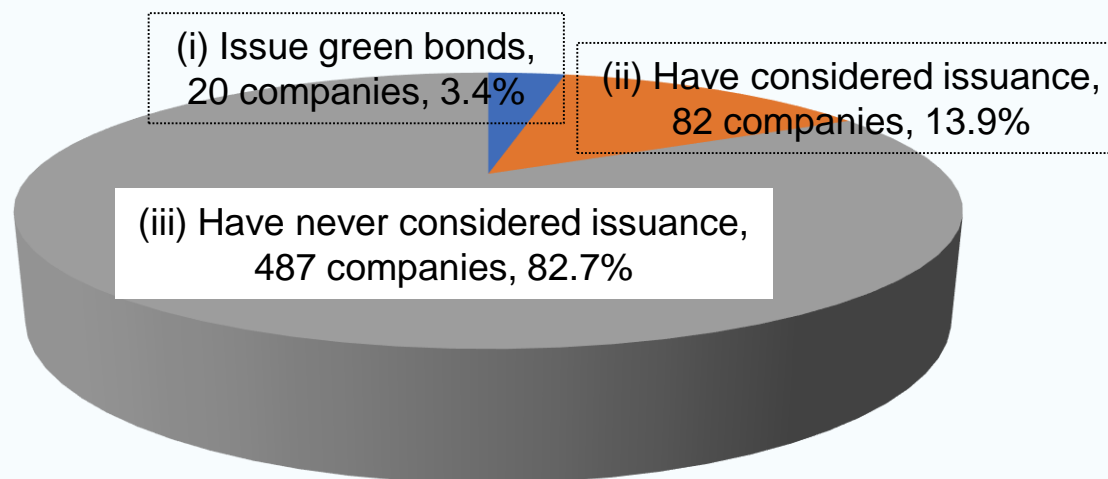
Q10: What is your status of action taken to achieve Sustainable Development Goals (SDGs)?



<Previous survey>



Q11: What is your status of issuance of green bonds?



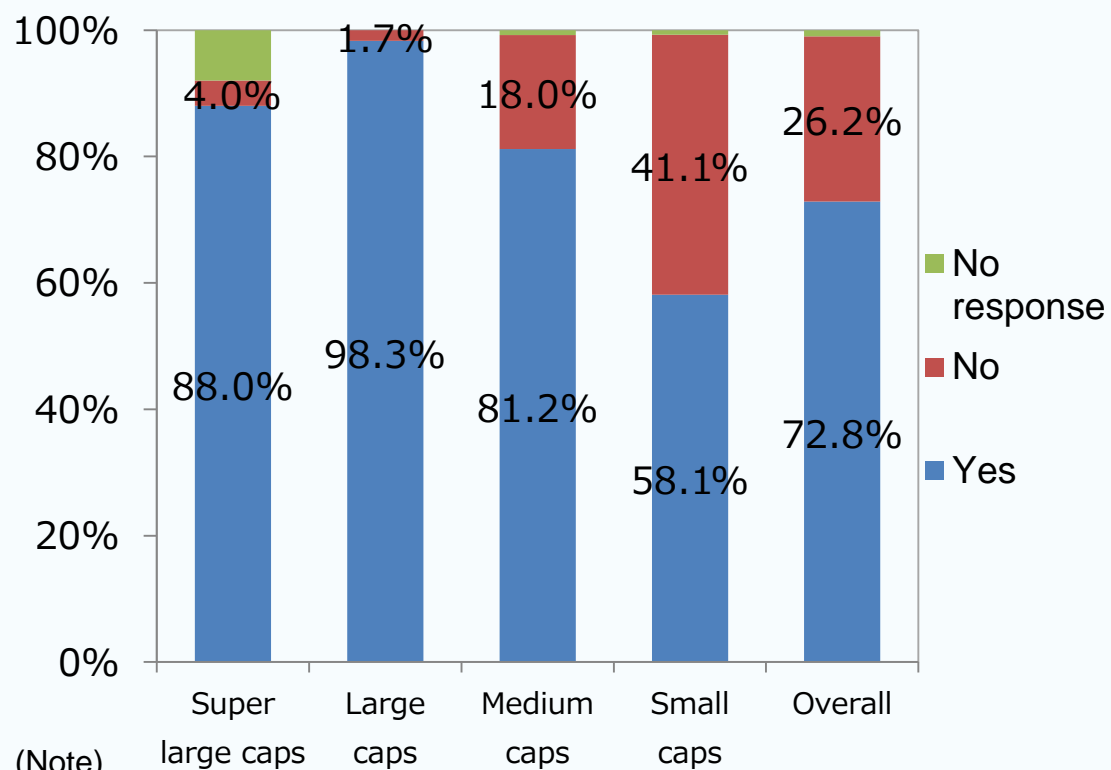
Summary of Survey Results III: GPIF's Initiatives (Environmental Indices and ESG Indices)

- ❑ Approximately 75% of companies that responded to this survey knew about S&P/JPX carbon indices (hereinafter, “environmental indices”) selected by GPIF last year. While over 40% of all companies confirmed both the evaluation methods and their ranks, more than 80% of large-caps (TOPIX 100 companies) confirmed each item (p. 21).
- ❑ In terms of the status of inclusion in the ESG indices, companies with a larger market cap tended to state that they had internal discussions (p. 22).
- ❑ 55% of companies considered the selection of ESG indices positively, and very few negative comments were found. While the majority of companies that are classified into medium- and large-caps selected “Appreciate” for rating the indices, most companies that are classified into small caps selected “Not sure”(p. 23). As for the reasons for their positive evaluations, many companies cited a system to encourage disclosure of information, disclosed evaluation methods, positive screening, announcement of constituent companies, etc.(p. 24).
- ❑ Over 50% of companies positively considered each of the three ESG indices that GPIF selected two years ago. Since most small-caps have not been included in the universe (parent indices), many of these small companies selected “Not sure” for the rating of the indices. However, there is no significant differences in rating three ESG indices (p. 25).
- ❑ While the ratio of companies that selected “There have been changes in ESG awareness, organizational structures, and activities within the company” was higher for large-caps as in the previous survey, the number of companies that selected “There have been changes “ increased even for medium- and small-caps, compared to the previous survey (p. 27).
- ❑ A quarter of respondents conduct dialogue with MSCI and FTSE. We believe that the number of companies that conduct dialogue with S&P (Trucost) has been limited because the evaluation items for the company's environmental indices are focused on carbon efficiency, etc. (p. 29).

<GPIF's Initiatives (S&P/JPX Carbon Indices and ESG Indices)>

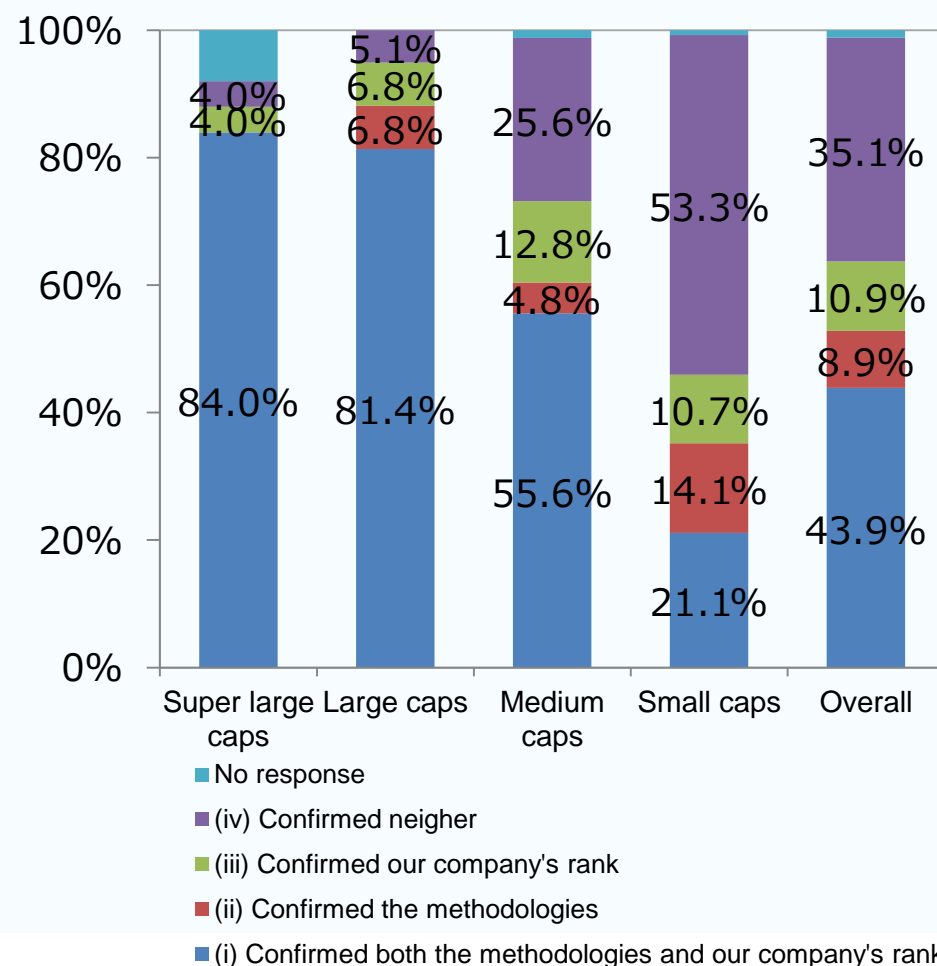
Q1: The GPIF selected S&P/JPX carbon indices (hereinafter, “environmental indices”) in September 2018.

■ Did you know about the environmental indices?



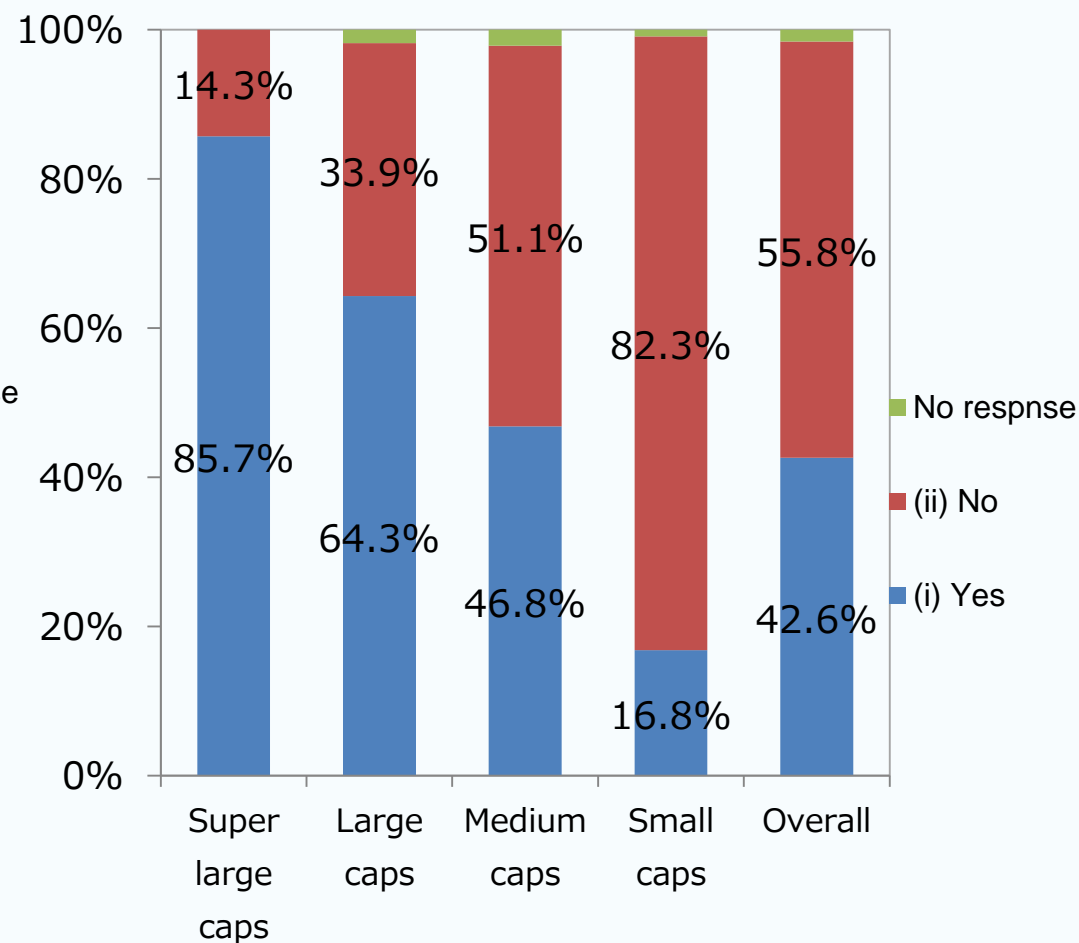
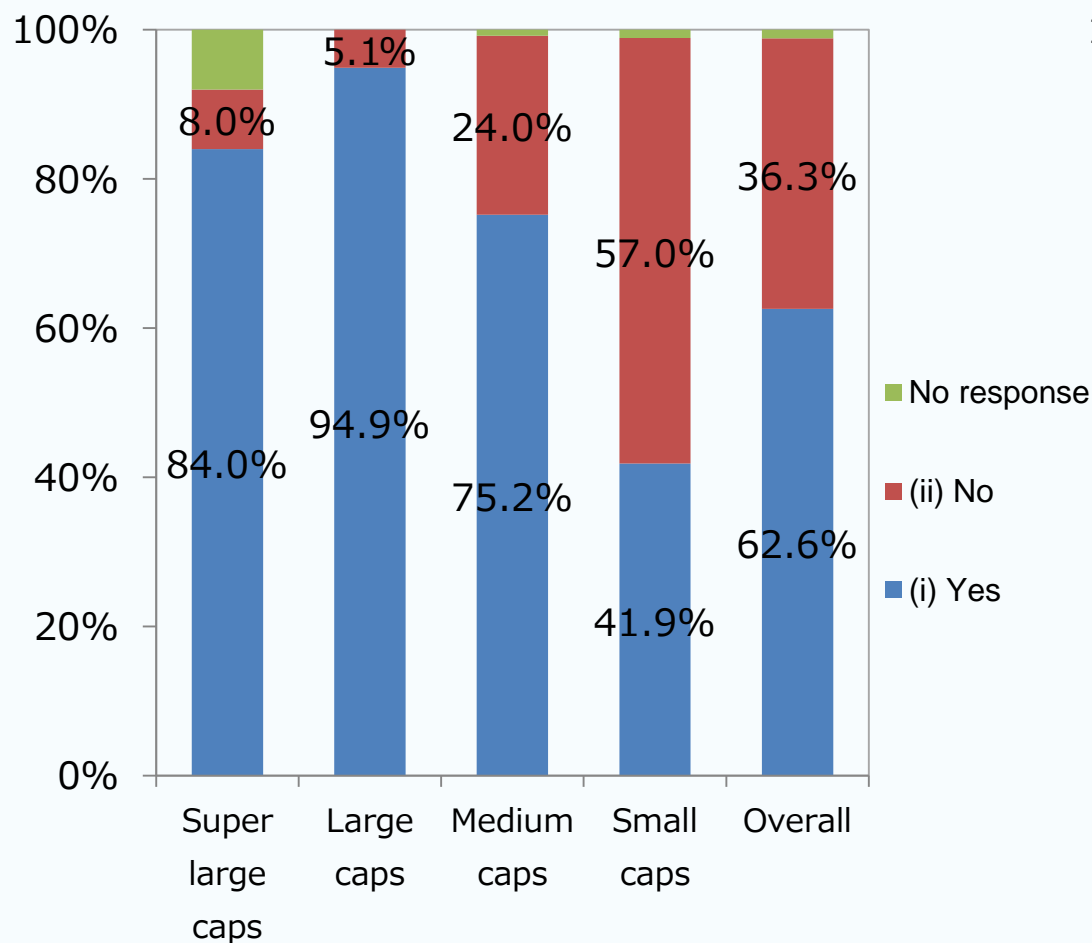
(Note)
 Super large caps: TOPIX Core 30
 Large caps: TOPIX Large 70
 Medium caps: TOPIX MID 400
 Small caps: TOPIX Small
 Data as of December 31, 2018

■ With regard to the environmental indices selected by GPIF, GPIF discloses its evaluation methods (methods for weight adjustment) and the rank of each company (positioning in 10 deciles). Have you seen them?

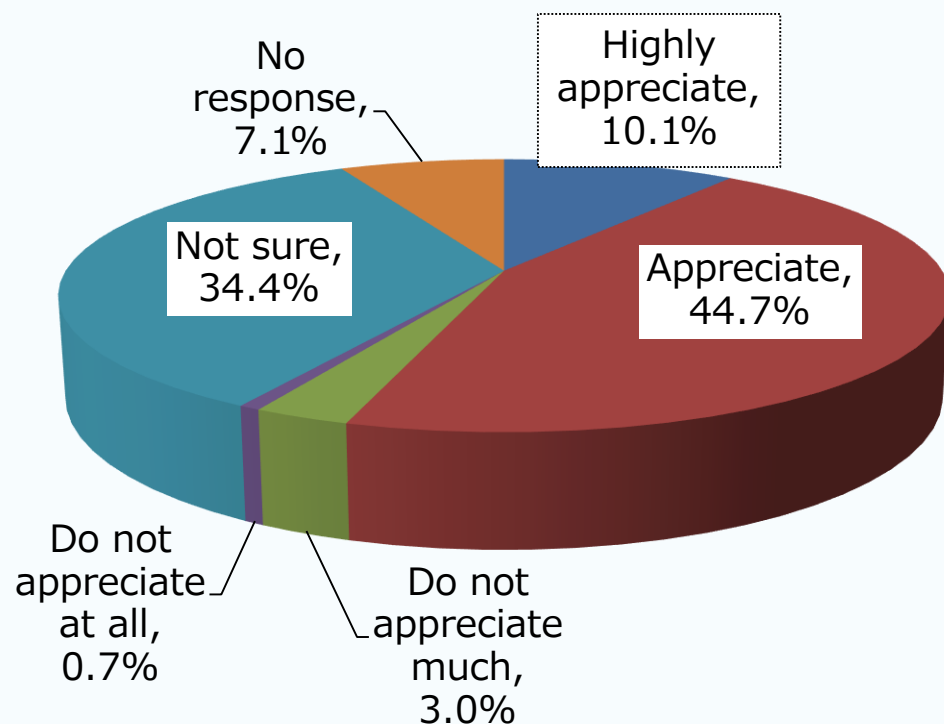


■ Do you know if your company has been included in the environmental indices?

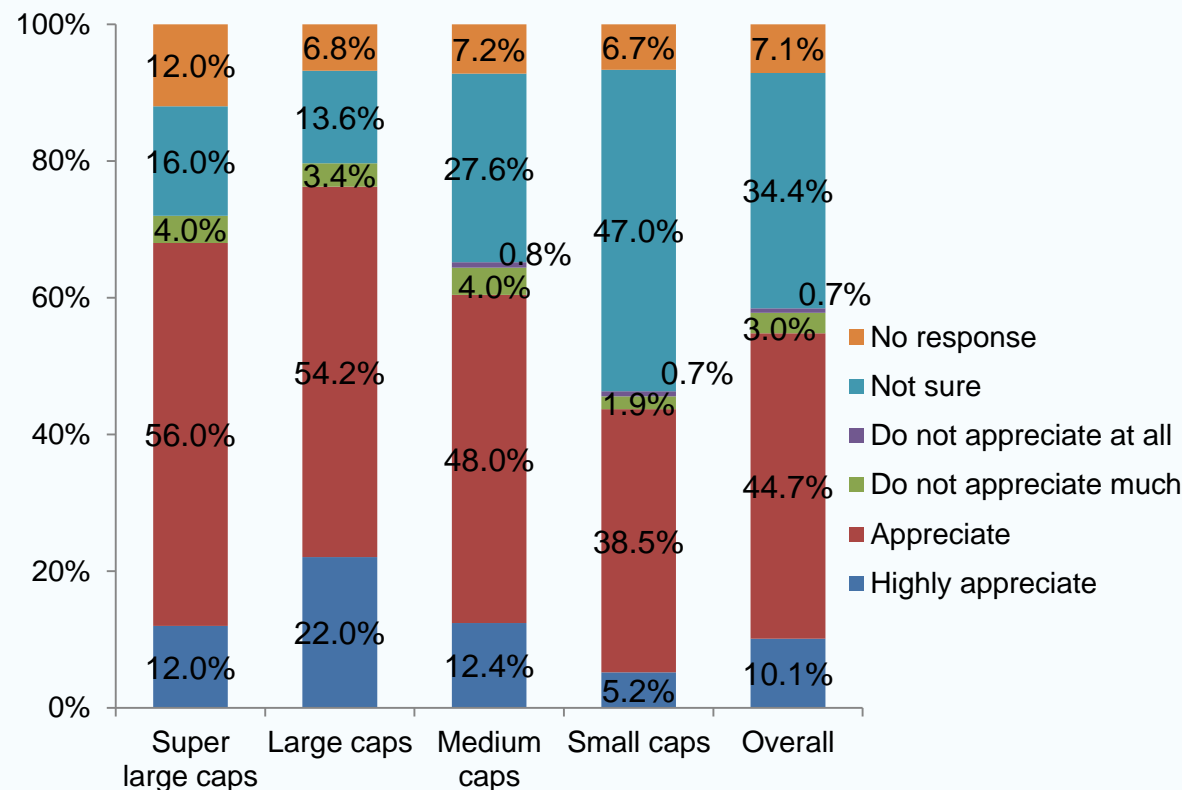
■ If you selected “Yes”, did you have any internal discussions on the status of inclusion in environmental indices?



Q2: Describe your rating of the environmental indices.

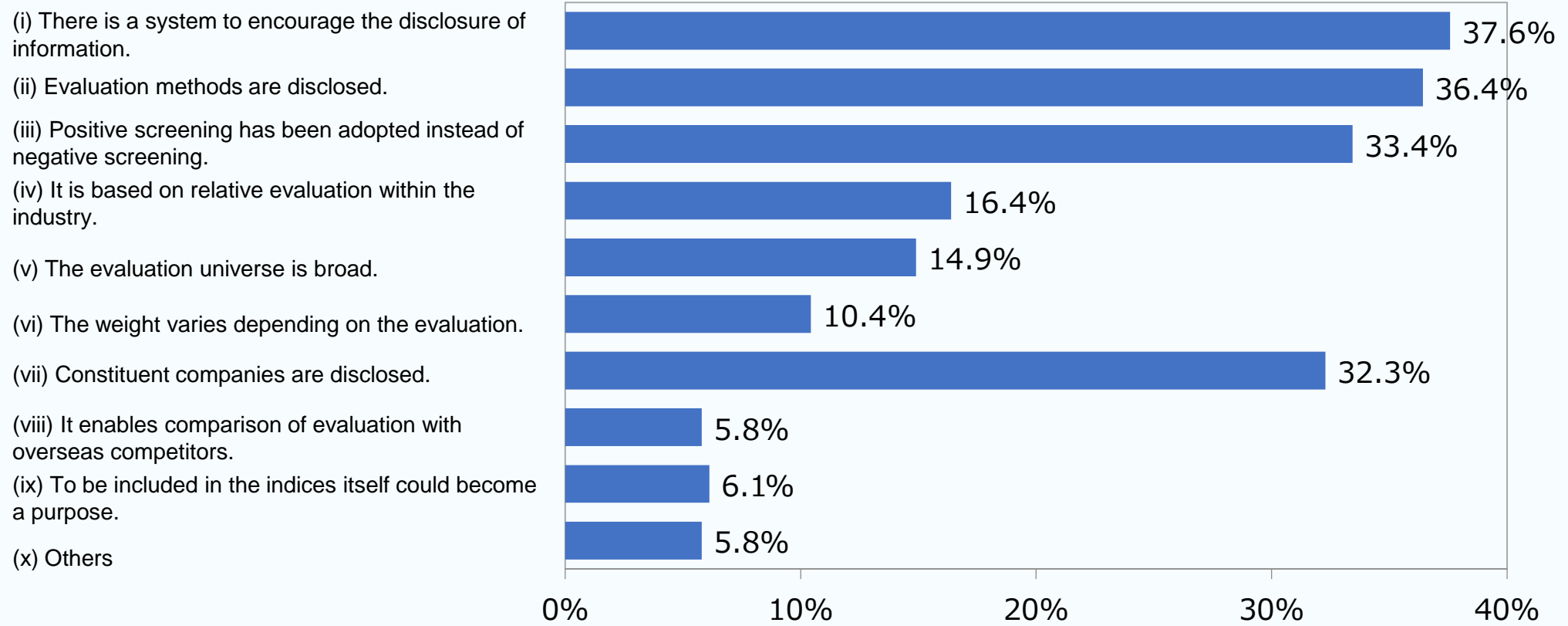


<Summary by company size (market cap)>



- While positive evaluations (“Highly appreciate” and “Appreciate”) with regard to the environmental indices vary depending on company size, very few companies gave negative evaluations (“Do not appreciate at all” and “Do not appreciate much”) in any category.

What are the reasons for your evaluation on the previous page? (Multiple responses allowed)

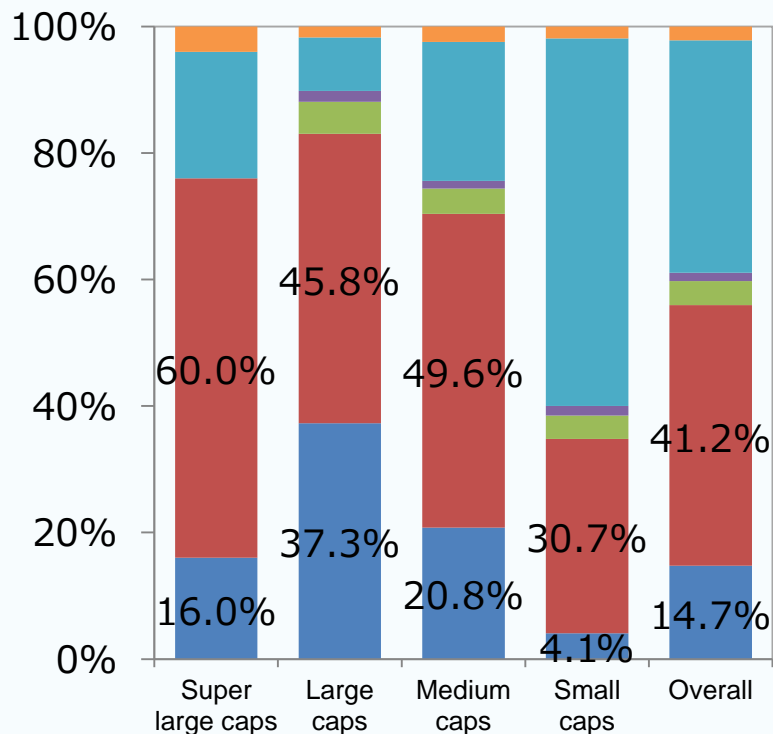


- [Comments by respondents that selected “(x) Others”]
- While we appreciate them overall, the value of being selected (as a constituent of an environmental index) is a little obscure, as there are too many constituent companies.
 - This index has the effect of expanding the scope of ESG activities to small and medium caps, which will result in boosting the market on the whole with a bottom-up approach and enhancing motivation for the activities.
 - The methods are hard to understand / Judgment criteria for “disclosing” or “not disclosing” evaluation methods are ambiguous / Data recognized by Trucost cannot be confirmed
 - We think that the policy of encouraging to reduce carbon emission by incorporating companies with higher environmental load as a constituent instead of excluding them from the scope will work as a method for solving issues by facing the reality of our society, rather than taking a superficial and hypocritical method such as divestment.
 - Negative screening is more suitable for environmental issues.
 - This index will help companies improve their carbon efficiency and information disclosure / The index provides opportunities for dialogue both inside and outside of our company / The index helped to raise internal interest as a risk factor

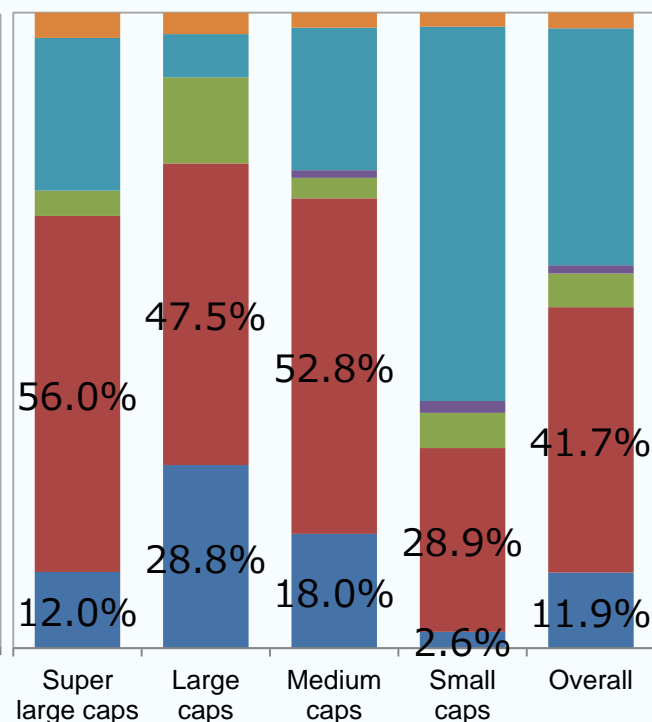
Q3: GPIF selected three ESG indices for Japanese equities in July 2017.

■ Describe your rating of these ESG indices

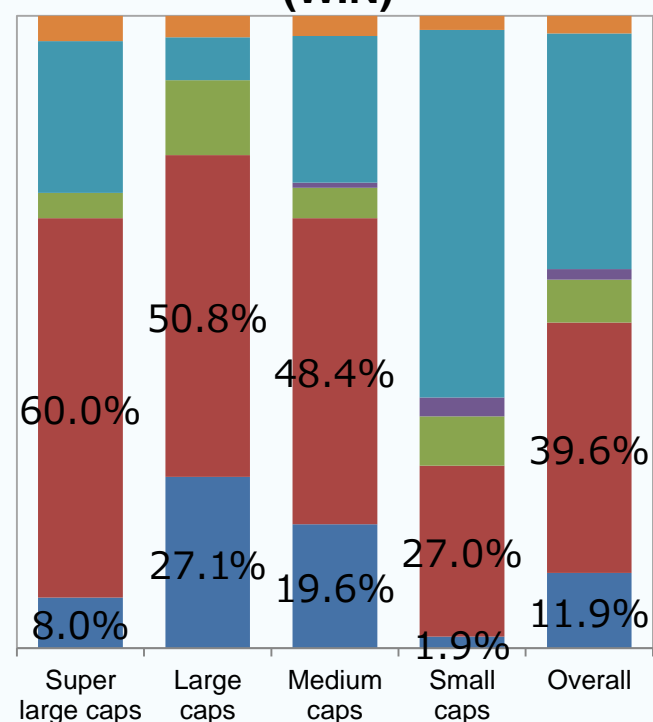
FTSE Blossom Japan Index



MSCI Japan ESG Select Leaders Index



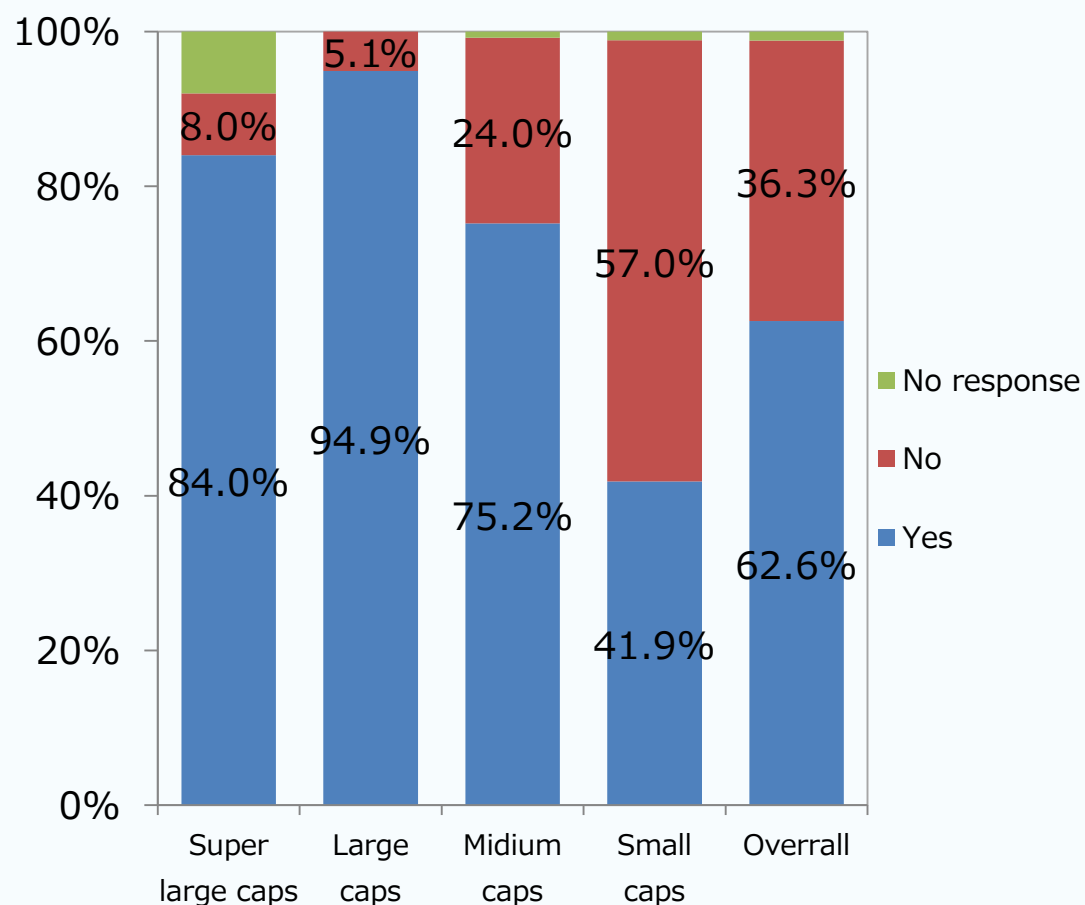
MSCI Japan Empowering Women Index (WIN)



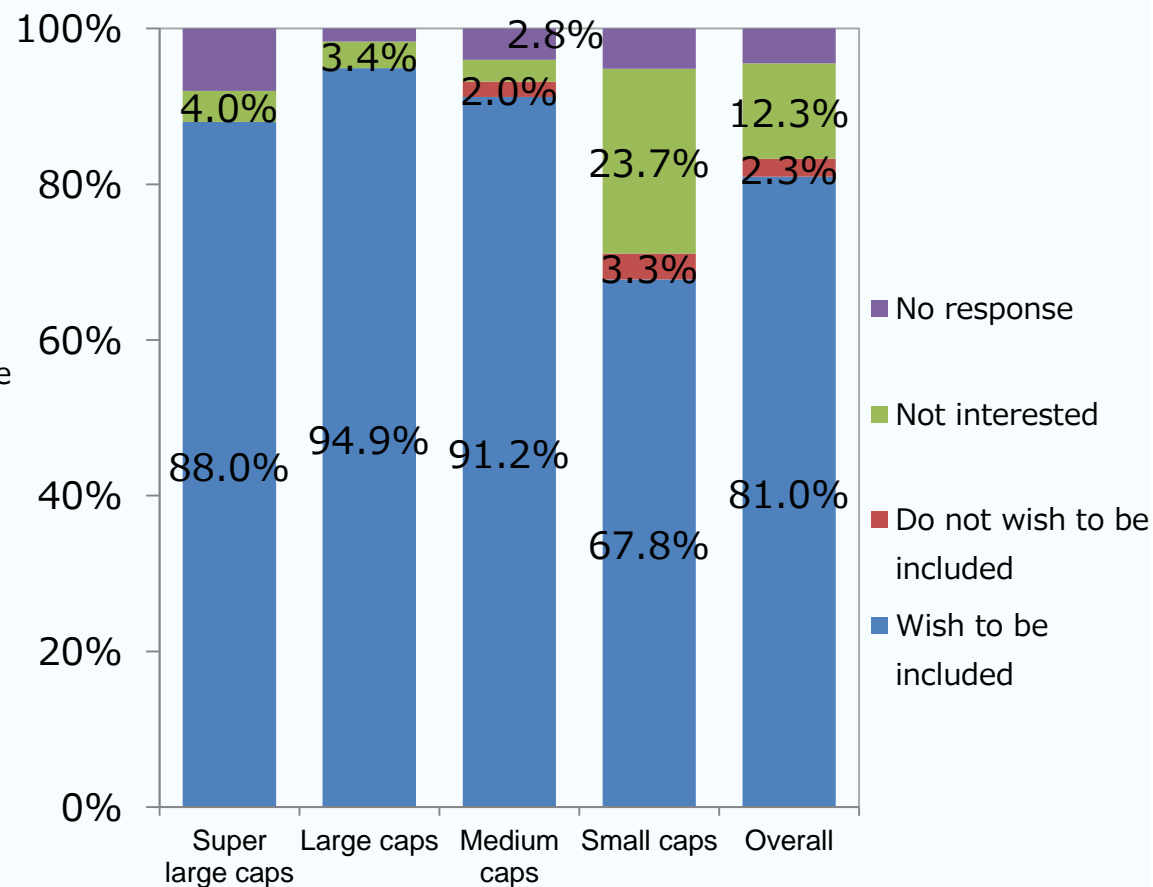
■ Highly appreciate ■ Appreciate
■ Do not appreciate much ■ Do not appreciate at all
■ Not sure ■ No response

- Super-large-cap companies, large-cap companies, and medium-cap companies that are subject to the universe of the ESG indices tended to evaluate the indices positively. While few negative evaluation was found among small-cap companies that are currently difficult to be included in the universe due to their company size, many of them stated that they were not sure.
- Overall, no prominent differences in evaluation for each indices were observed.

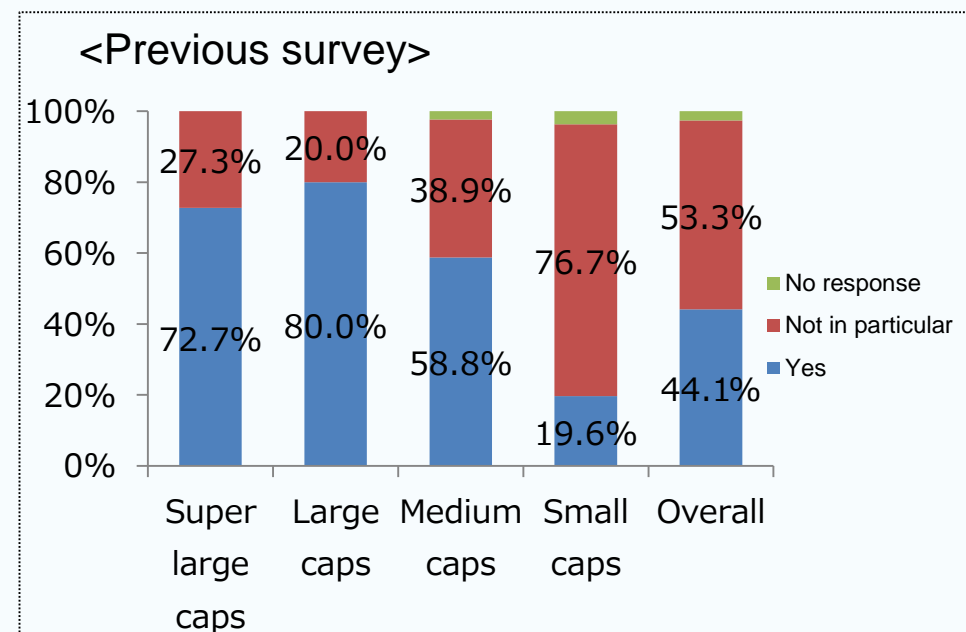
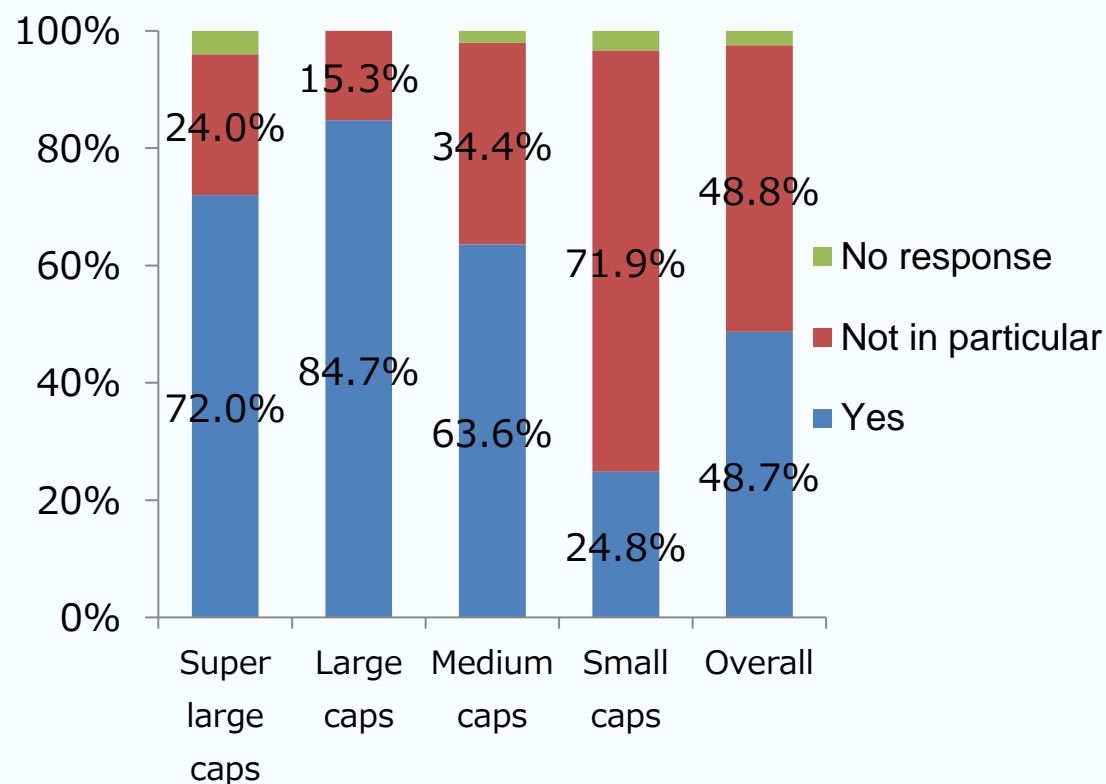
■ **Have you seen evaluation methods for the ESG indices selected by GPIF that index providers have been disclosed?**



■ **What are your views on the inclusion in these ESG indices?**



Q4: With regard to the environmental indices and the ESG indices selected by GPIF, have there been any changes in awareness of ESG, discussion, organizational structure, and activities within your company since the launch of the aforementioned environmental indices and the ESG indices?



- No significant changes were observed as a result of the launch of the ESG indices among the small-cap companies, which are currently difficult to be included in the universe due to their company size. However, many super-large-cap and large-cap companies did observe some changes within their companies.
- The number of companies that observed changes as a result of the launch of the environmental indices increased from the previous survey, albeit slightly, even among medium- and small-cap companies, probably because the evaluation universe (parent index) of the environmental indices is TOPIX.

Comments regarding changes in awareness of ESG, discussion, organizational structure, and activities within the company as a result of the launch of the ESG indices

[Changes in awareness of ESG]

- More staff has recognized that management should take the lead in ESG activities.
- Interest has been increased in the corporate planning and financial division.
- We were unsure about the impact of being selected in the indices before. However, it became clearer that the selection is directly linked with investments, which changes our awareness of ESG.
- We have become aware that there is a risk in not disclosing company information.
- We have become more interested in the environmental indices, and the inclusion of small caps into the indices.

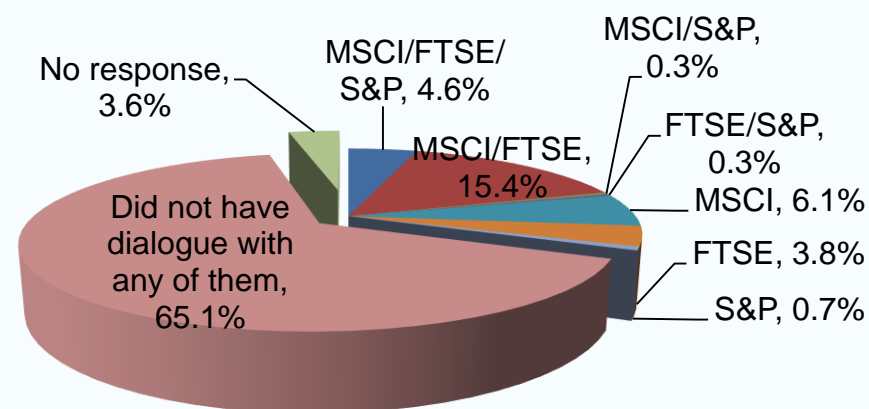
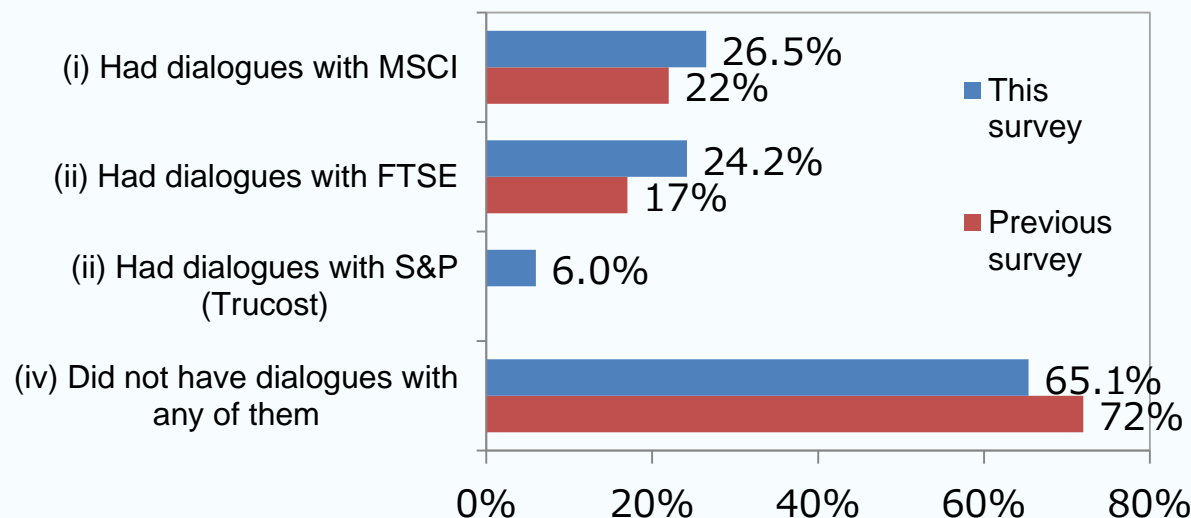
[Changes in organizational structure]

- It has resulted in discussions on ESG issues at the board of directors' meetings and management meetings.
- We established the Sustainability Promotion Office in April 2018 and appointed the President as the Chairperson of the Sustainability Committee.
- Disclosure of ESG information based on collaboration across divisions has commenced.
- Relevant departments within the company cooperated with each other in order to enhance dialogue with MSCI and FTSE.

[Changes in activities, etc.]

- We started to disclose ESG-related information targeting investors.
- With full-fledged awareness that the disclosure of ESG-related information is necessary, we issued the Integrated Report for the first time.
- In order to promote accurate understanding of our reports globally, we enhanced the disclosure in Japanese and started disclosing the full English reports as well.
- Reflecting increased interest in ESG issues among senior management, we listed “promotion of ESG-oriented management” as one of our medium-term management strategies published last year, and will further focus on ESG issues in the future.
- We established and disclosed basic policies on sustainability initiatives while commencing with the identification of materiality.
- It gave us an opportunity to review our environmental projects and initiatives that we have been working on.
- As our company initially had not been included in WIN, our top management became aware of the reasons why and the company as a whole made efforts for improvement.
- We started to discuss the number of our shares held by GPIF at our management meetings, etc.

Q5: Have you have dialogue with or make inquiries to MSCI, FTSE and S&P (Trucost) following the selection of the environmental indices and the ESG indices?



Q6: Please share with us your opinions concerning the ESG indices selected by GPIF.

[Comments]

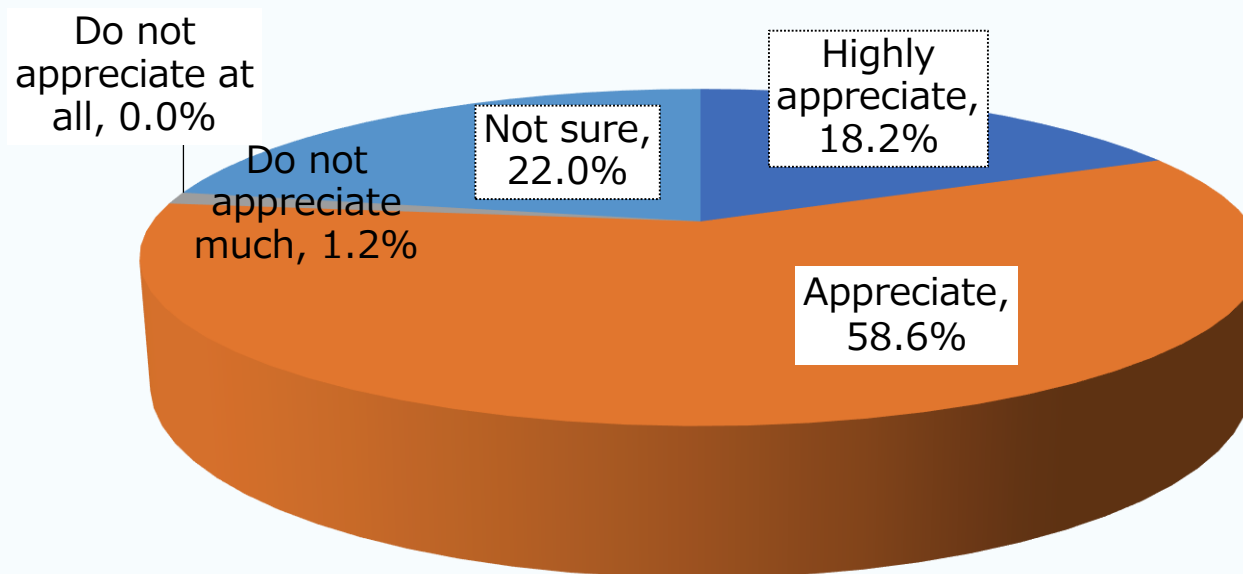
- With regard to the ESG indices, we would like GPIF to expand and clarify the universe (relaxation of market cap criteria), expand them into small caps and medium caps and set hurdles by company size.
- We highly evaluate the setting of the ESG index constructed from the diverse investment perspective as well as the adoption of positive screening.
- We would like GPIF to continue to disclose the structure and evaluation methods (to ensure transparency), provide easy-to-understand explanations for companies and hold information sessions.
- While we understand the difficulty for now, we hope that evaluation criteria will be standardized and expect a higher correlation (among indices).
- We hope to have more thematic indices, including the one focused on governance, which is an area that Japanese companies relatively need to enhance.
- We would like to know the approximate amount of assets under management for each index on a periodical basis (biannually).

Summary of Survey Results IV: GPIF's Initiatives (Overall Stewardship Activities)

- As for the rating of GPIF's overall stewardship initiatives, approximately three-quarters of respondents selected "Highly appreciate" and "Appreciate." While many of them appreciated our initiatives such as addressing clear policies as an asset owner, dialogue with our external asset managers from a long-term standpoint and ensuring transparency, among other factors, some companies pointed out that formalistic discussions are increasing (p. 31).
- Some of GPIF's initiatives gained high recognition, including "Putting more weight on stewardship activities in the evaluation of external asset managers," "ESG investment including environmental indices" and "Survey of listed companies," while there are less recognized initiatives, such as "Joining the U.K. 30% Club and the U.S. Thirty Percent Coalition" and "Holding Global Asset Owners' Forum." As for the evaluation of the each initiatives, companies tended to select "Not sure" for initiatives with lower recognition, which resulted in the lower ratio of "Highly appreciate" and "Appreciate" (p. 32).
- When companies and institutional investors discuss GPIF during meetings, the most frequently mentioned topics are "ESG investment" and "Stewardship" (p. 33).
- With regard to GPIF's public relations activities, an overwhelming number of companies have seen GPIF's official website. Many respondents have also seen presentations and articles contributed by GPIF's officers and staff (p. 33).
- As for expectations derived from GPIF's stewardship activities, many respondents commented on the promotion of engagement from a long-term standpoint, provision of opportunities for companies with a relatively small market cap to have dialogue with external asset managers, and dissemination of ESG investment and expansion of ESG investment in fixed income, etc. among others (p. 34).

<GPIF's Initiatives (Overall Stewardship Activities)>

Q1: How do you rate GPIF's overall stewardship activities, and why?



[Comments]

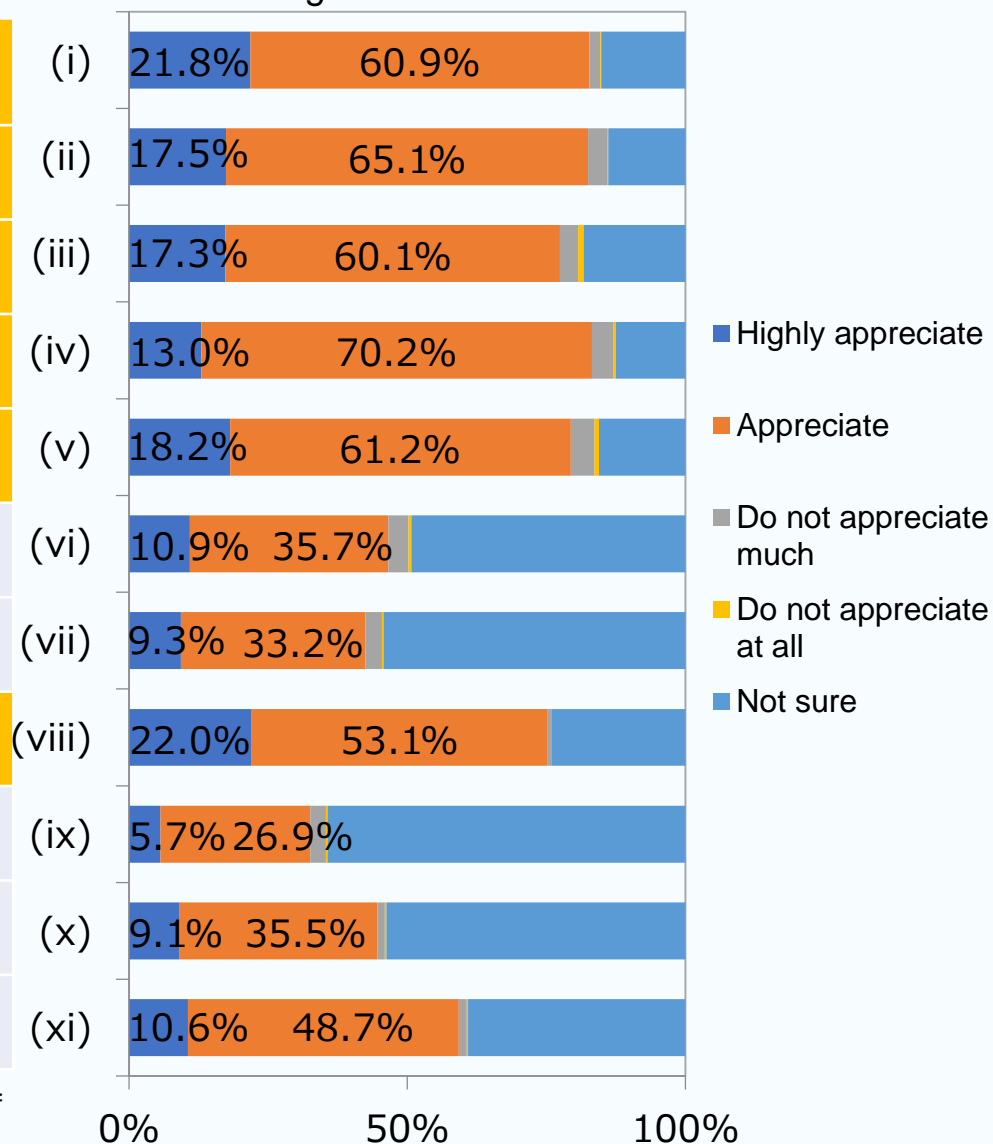
- Evaluation of growth potential over the medium- to long-term has helped to develop the trend of getting rid of short-termism. (From a respondent that selected "Highly appreciate")
- As a result of GPIF's proactive offering information as an asset owner, we feel changes in the engagement not only with GPIF's external asset managers but also a broad range of asset managers. (From a respondent that selected "Highly appreciate")
- GPIF's addressing clear guidelines and exemplary attitude as an asset owner. (From a respondent that selected "Appreciate")
- GPIF has been endeavoring to engage with its external asset managers from a long-term perspective and to secure transparency in its activities. (From a respondent that selected "Appreciate")
- While the number of questions from a medium- to long-term perspective has slightly increased, there are still many formalistic interviews. (From a respondent that selected "Do not appreciate much")
- We are doubtful if investment policies will be directly linked with investment performance. (From a respondent that selected "Do not appreciate much")
- We are not sure about the effects yet since the activities have been carried out only for a short period of time. (From a respondent that selected "Not sure")

Q2: Do you know any of the following GPIF's recent initiatives? (Multiple responses allowed)
Choose all the initiatives you know, and describe your rating and the reason.

<Recognition of initiatives>

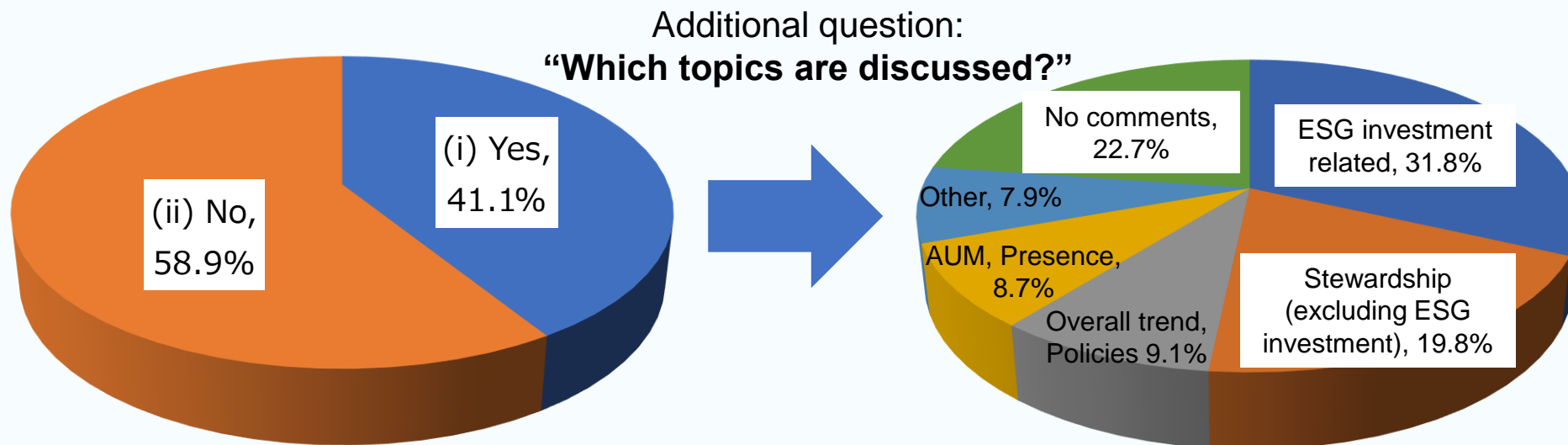
(i) Putting more weight on stewardship activities in the evaluation of external asset managers (engagement aimed at enhancing medium- to long-term corporate value, etc.)	47.8%
(ii) "Stewardship Principles" and "Proxy Voting Principles"	46.7%
(iii) Investment based on the environmental indices and ESG indices	48.7%
(iv) Survey to companies (this survey)	51.3%
(v) Publication of excellent Integrated Reports	43.2%
(vi) Holding the Business and Asset Owners' Forum	21.2%
(vii) Holding the Global Asset Owners' Forum	17.5%
(viii) Becoming a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and activities through PRI	38.7%
(ix) Joining the U.K. 30% Club and the U.S. Thirty Percent Coalition	15.4%
(x) Participation in the Climate Action100+	18.9%
(xi) Endorsement of the Task Force on Climate-related Financial Disclosures (TCFD)	29.5%

<Rating of initiatives>

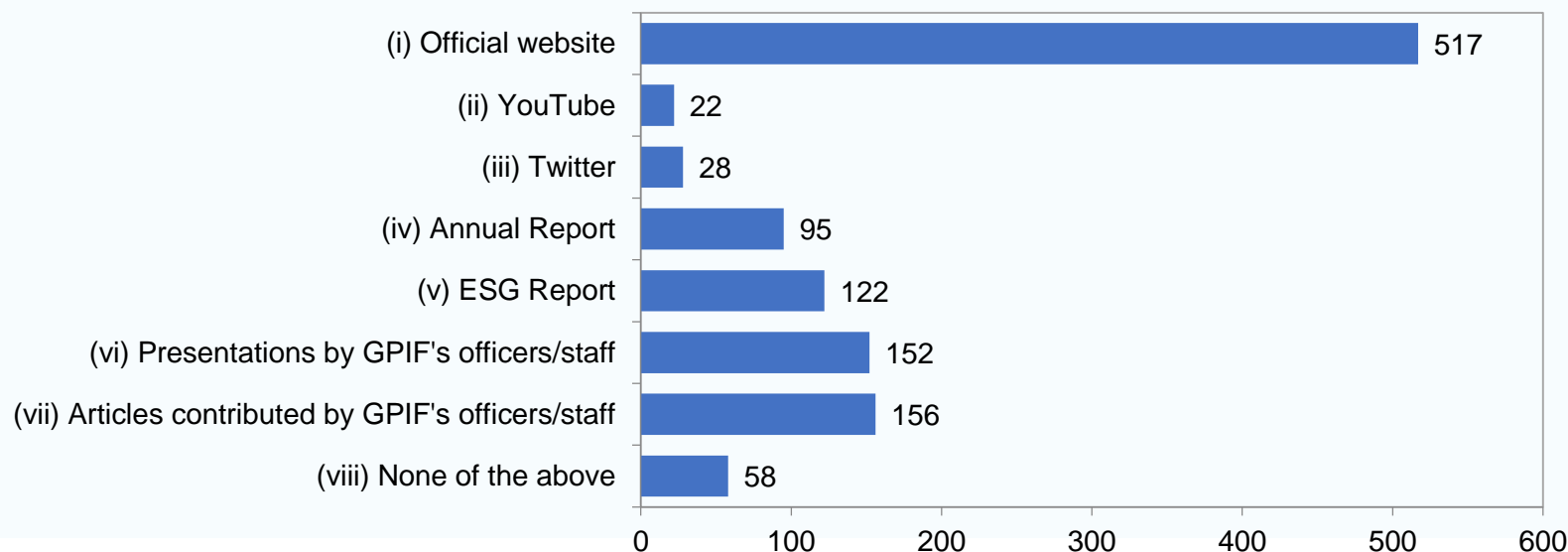


(Note) The table on the left indicates the ratio of companies that recognize each initiative out of 604 companies. The yellow cells indicate initiatives whose recognition exceeds 30%. The right chart indicates the results, excluding companies that did not respond.

Q3: Have you discussed any GPIF topics during your meetings with institutional investors?



Q4: Have you seen the following GPIF’s public relations activities? (Multiple responses allowed)



Q5: What do you expect from GPIF's stewardship activities as an asset owner?

- In order to make Japanese companies and the Japanese market gain more attention globally amid the trend of passive investment, we understand that GPIF's stewardship and ESG activities will become increasingly important. We hope for fundamental reinforcement of engagement so that GPIF will not end up with formalistic observance of the Stewardship Code.
- Japanese companies on the whole should look toward the same direction to enhance corporate value and realize sustainable growth of the Japanese economy, not only initiatives by some forward-looking companies. For that, we would like GPIF to further promote the enhancement of information disclosure from the perspectives of the operations of various initiatives and proxy voting, the issuance of reports and the holding of forums. In addition, since GPIF's initiatives have a significant impact on Japan's financial market, even though just at a guessing stage, we would like GPIF to promote its activities with transparency.
- We expect GPIF to promote dialogue that encourages systematic reforms of institutional investors, including their human resources and evaluation, making long-term investment with conviction, and providing opportunities for discussion on medium- to long-term strategies with companies.
- We would like GPIF's external asset managers to instill stewardship activities among their divisions in charge of small caps and medium caps.
- In order to ensure that ESG will not end up as a passing trend, we would like to have regular dialogue with asset managers with the aim of sharing information and developing analysis.
- We would like GPIF to manage ESG and Stewardship activities by institutional investors so that these initiatives will suffer from the activity trap.
- We expect GPIF to further encourage the institutional investors to make investments based on ESG evaluation of investee companies. We also hope ESG investment is not only for the passive management of equities but also expand to the active management of equities and fixed income in the future.
- While the disclosure of nonfinancial information has been increasing, we would like GPIF to work on systematic endorsement, as evaluation criteria has not been established yet.
- We would like GPIF to further boost governance over the index providers that select ESG indices to be adopted.
- We expect GPIF to secure investment profit for pension funds over the medium- to long-term through global investment management.