



March 31, 2025

Government Pension Investment Fund (GPIF)

GPIF's Initiatives for Sustainability Investment

Government Pension Investment Fund (GPIF) is committed to fulfilling its fiduciary duty to secure adequate pension reserves for both current and future insureds. As a cross-generational investor which is responsible for supporting pension finance, and as a universal owner¹, GPIF believes it is important to secure long-term benefits for insureds by reducing negative externalities caused by environmental and social issues on the capital market, and facilitating sustainable and stable growth of the entire market and society. Based on this belief, GPIF has been conducting stewardship activities through external asset managers and promoting initiatives for ESG, since it became a signatory to the Principles for Responsible Investment (PRI) in 2015.

To promote investment considering ESG ("ESG investment"), GPIF started adopting ESG indexes since 2017 (selected nine domestic and foreign indexes) and earned investment returns², while reviewing some indexes to reduce the risks (tracking errors³ against policy benchmarks.). In addition, the effects of ESG investment, which increases the incentive for companies to pursue ESG initiatives and leads to the improvement of long-term corporate value and investment returns, have been regularly verified and introduced in the annual ESG Report. GPIF also implemented the "Measuring the Effects of Stewardship Activities and ESG Investment Project" from FY2023 to FY2024.

Regarding the ESG investments that have been carried out over the past seven years under the PDCA cycle described above, we believe that a certain level of effects has been achieved, such as acceleration of changes in corporate behavior while securing investment returns.

In preparation to starting the 5th Medium-term Objectives period (April 2025 - March 2030), GPIF has decided to implement the following initiatives from the perspective of promoting sustainability investments (investment with consideration to sustainability) including investments considering ESG and impact.

¹ Universal owner refers to an investor with a very large fund size and a widely diversified portfolio that spans the capital market

² Cumulative excess returns from ESG index-based investments in domestic equities and foreign equities (against parent indices: total sum of excess returns for each year) were 182.9 billion yen and -31.7 billion yen, respectively (as of the end of December 2024).

³ Tracking error refers to the risk of divergence between a benchmark used in the formulation of the policy asset mix and an ESG index.

1. Formulation of Sustainability Investment Policy

GPIF has newly established the “Sustainability Investment Policy,” which outlines its fundamental approach to sustainability investments, including investments considering ESG and impact.

This policy describes the approach to sustainability investment, its purpose, principal initiatives, evaluation / verification of its effects, implementation system, governance and information disclosure. Specifically,

- In sustainability investment, GPIF shall aim to contribute to improving the long-term performance of its entire portfolio by achieving both “reduction of sustainability-related risks and improvement of sustainability of markets” and “securing of market average return.”
- GPIF shall promote sustainability investment for all assets.
- GPIF shall evaluate and verify the effects of sustainability investment, and shall undertake bold reviews if the effects of investment anticipated at the start of investment period are considered to be highly unlikely to be achieved as expected going forward.

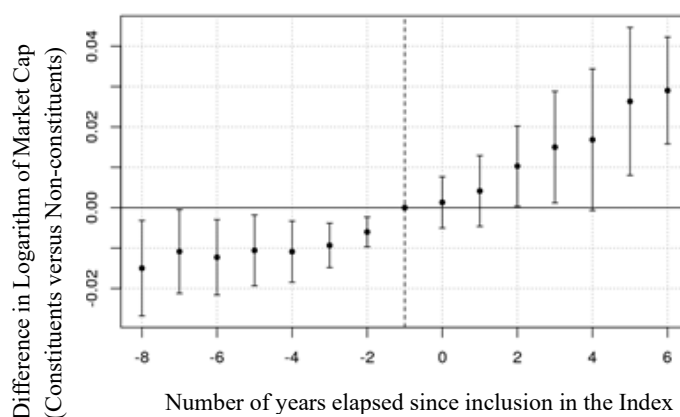
2. Future Initiatives for Sustainability Investment

(1) Promoting Sustainability Investment through ESG Index-based Investments

(a) Enhancing and expanding verification of the effects of ESG index-based investments

By the end of FY2024, GPIF evaluated whether behavioral changes of companies that are conscious of being included in ESG indexes had led to the improvement of their ESG performance and corporate value based on statistical causal inference methods using various indicators (i.e., verification of the effects of ESG index-based investments).

The evaluation results of ESG index-based investments in domestic equities with an elapsed investment period of seven years suggest that not only the ESG ratings but also corporate value indicators began to diverge between “constituents” and “non-constituents” of ESG indexes around the time of initial inclusion, confirming the positive effects of ESG index-based investments.



(Note) Based on the interim report on “Evaluation of the effects of passively equity investment based on ESG indexes” (December 2024). The above chart is for the MSCI Nihonkabu ESG Select Leaders Index.

During the 5th Medium-term Objectives period, GPIF will continue to conduct further verification of the effects of ESG index-based investments on the enhancement of the markets and improve its initiatives.

(b) Selecting new ESG indexes

GPIF has been in active dialogue with index providers and reviewed the methodology (index composition method) of ESG index-based investments in domestic equities. Specifically, we increased the number of constituents of parent indexes⁴ to expand the base for ESG indexes, and changed the methodology to allow companies with relatively small market capitalization to be selected for the ESG indexes.

In the 5th Medium-term Objectives period, GPIF will solicit new ESG indexes that will contribute to the improvement of medium- to long-term risk-return through the index posting system, while taking into account the progress of ESG initiatives implemented by companies.

(c) ESG index-based investments in the scope of rebalancing (from the perspective of asset management in line with the policy asset mix)

In the past, GPIF's ESG index-based investments have been out of scope of rebalancing⁵, so as not to affect the shares of stocks held through the ESG indexes.

However, as a result of rebalancing assets other than ESG index-based investments amid the recent rise in stock prices, the composition ratio of ESG index-based investment balance has increased in GPIF's domestic and foreign equity portfolios.

As the scale of managed assets is expected to expand further, ESG index investments in both domestic and foreign equities will be incorporated into the rebalancing framework to ensure efficient asset management in alignment with the policy asset mix, optimizing investment amounts based on market conditions and other relevant factors.

(2) Promoting sustainability investment through various traditional and alternative assets funds

GPIF has selected ESG-focused active funds for traditional assets, as well as infrastructure funds that promote the use of renewable energy for alternative assets.

In ESG index-based investments, the ESG evaluation and the composition method of ESG indexes (methodology) are disclosed. Thereby, the corporate value of investee companies is expected to increase sustainably as they are self-motivated to enhance their ESG initiatives. In addition to these effects expected of ESG index-based investments, we believe that, from the perspective of sustainable enhancement of corporate value, active engagement with companies by asset managers that invest in traditional and alternative assets is also effective.

During the 5th Medium-term Objectives period, GPIF will continue promoting sustainability

⁴ ESG indexes are based on indexes (parent indexes) comprised of companies from various industries, and they are set in such a way that the composition ratio of companies with high ESG ratings is higher than that of the parent indexes.

⁵ To ensure pension reserves managed and invested in alignment with the policy asset mix, GPIF implements replacement of assets (rebalancing) in a timely and appropriate manner when the asset composition ratio of managed assets diverges from the policy asset mix.

investment through various traditional and alternative assets, in anticipation of asset managers' ability to engage with companies.

(3) Promoting sustainability investment through stewardship activities

GPIF will continue to conduct stewardship activities in the 5th Medium-term Objectives period based on the following basic concept:

- The objective of GPIF's stewardship activities is to increase long-term investment returns solely for the benefit of its insureds. GPIF promotes stewardship activities with consideration to sustainability such as ESG from the perspective of increasing long-term investment returns.
- GPIF can benefit from enhanced investment returns, if the long-term corporate value increases through engagement by external asset managers, which may also contribute to the sustainable growth of the capital market and overall economy.
- GPIF aims to develop a virtuous cycle in the investment chain by engaging in ongoing dialogue with external stakeholders in addition to its dialogue with external asset managers.

On conducting stewardship activities, GPIF will improve and review its initiatives by implementing the PDCA cycle by itself, such as undertaking measurements of the effects of its activities, while strengthening its structure.

[Please refer to the appendix for the direction and medium-term initiatives of GPIF's stewardship activities]

(4) Consideration of investments that take into account the impact

In line with the 5th Medium-term Objectives, from the perspective of securing long-term returns for the benefit of insureds while ensuring market average returns, GPIF will consider making investments by incorporating the social and environment effects (impact) of investee companies' business activities as a non-financial factor when evaluating the potential for sustainable growth of investee companies, and will undertake the necessary initiatives.

In doing so, GPIF will proceed with its initiatives in line with the sustainability investment policy, while paying attention to the basic principles and investment objectives, such as ensuring long-term returns for the benefit of insureds. In addition, GPIF will verify on an ongoing basis whether the initiatives are implemented in accordance with the basic concept expected of GPIF's investments.

(5) Enhancing public communication

During the 5th Medium-term Objectives period, GPIF will enhance public communication about initiatives regarding its sustainability investment. Specifically, GPIF will replace the "ESG Report" with the newly titled "Sustainability Investment Report(tentative name)", which will be published annually, to actively communicate its sustainability investment initiatives.

[Appendix] Direction and medium-term initiatives of GPIF’s stewardship activities

The direction, priorities and initiatives of GPIF’s stewardship activities for the 5th Medium-term Objectives period (April 2025 - March 2030) are as follows:

1. Basic concept and priority issues of GPIF’s stewardship activities

(1) Basic concept of GPIF’s stewardship activities

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- GPIF can benefit from enhanced investment returns, if the long-term corporate value increases through engagement by external asset managers, which may also contribute to the sustainable growth of the capital market and overall economy.
- GPIF aims to develop a virtuous cycle in the investment chain by engaging in ongoing dialogue with external stakeholders in addition to its dialogue with external asset managers.

(2) Priority issues for the 5th Medium-term Objectives period

GPIF will promote initiatives with a focus on the “enhancement of long-term corporate value” and “sustainable growth of the capital market and the overall economy.”

- 1) GPIF will focus on promotion of capital allocation and business strategies that will lead to the sustainable growth of corporate value, from the perspective of increasing long-term investment returns. In global capital markets, company management that is conscious of capital costs is required. In Japan, the dialogue between listed companies and investors regarding capital allocation (including shareholder returns) and information disclosure is progressing, according to the Tokyo Stock Exchange's request for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”. Going forward, we believe that the focus will shift to discussions directly linked to the future cash flows of companies, such as business strategies, in addition to resolving market valuation discounts through enhanced information disclosure.
- 2) Opportunities and risks regarding sustainability such as climate change and geopolitical risks vary significantly depending on the theme, region, industry and time period. Going forward, from the perspective of financial materiality⁶, GPIF will continue to consider it important that external asset managers encourage investee companies’ pursuit of opportunities, risk reduction (including enhancing resilience), and information disclosure related to sustainability.

⁶ Financial materiality is a measure of the significance of a specific risk and/or opportunity based on its potential impact on corporate value.

- 3) GPIF will focus on initiatives that promote effective corporate governance as a foundation for companies to enhance their corporate values over the medium-to-long term, while addressing risks and opportunities related to sustainability as well as changes in the business environment.

2. Key initiatives for the future

(1) Engagement with external asset managers

- GPIF will consider its framework of evaluating the quality of stewardship activities conducted by external asset managers in accordance with their investment strategies.
- GPIF will compile and publish best practice cases (successful examples) of effective stewardship activities conducted by external asset managers in accordance with their investment strategies.
- GPIF will improve efficiency of its evaluation process of stewardship activities by building a database of stewardship activities conducted by external asset managers.

(2) Developing a virtuous cycle of the investment chain

- GPIF will actively communicate investor perspectives, such as expectations of external asset managers toward investee companies.
- GPIF will analyze and communicate what stewardship activities that contribute to the enhancement of corporate value, and the sustainable growth of the capital market and the overall economy.
- GPIF will increase opportunities of exchanging opinions with market participants, such as investee companies and other asset owners, and enhance collaboration with them.

In accordance with the “Direction and medium-term initiatives of GPIF’s stewardship activities,” GPIF will continue to conduct stewardship activities, and improve and review its initiatives by implementing the PDCA cycle by itself, such as undertaking measurements of the effects of its activities, while strengthening its structure.