Acceptance of the Japan's Stewardship Code

May 30, 2014

Government Pension Investment Fund, Japan

1. Basic Concepts on the Acceptance of the Code

- The Government Pension Investment Fund (the "GPIF ") is an independent administrative agency whose primary objective[1] is to contribute to stable operations of the Employees' Pension Insurance and the National Pension schemes, by managing and investing their reserve funds entrusted by the Minister of Health, Labour and Welfare (the "Reserve Funds ") and paying return on the Reserve Funds to the Pension Special Account.

- The GPIF formulates Medium-term Plans including Strategic Asset Allocation being developed from long-term perspective and matters to be observed in managing and investing the Reserve Funds, etc., in accordance with applicable laws and regulations and the Medium-term Objectives indicated by the Minister of Health, Labour and Welfare (the "Laws and Regulations"), and invests in domestic and international bonds, equities, etc. based on such Medium-term Plans. Actual investments are entrusted to external asset managers such as trust banks and investment management companies (the "External Asset Managers"), except for certain in-house investments.

- The "Council of Experts Concerning the Japanese Version of the Stewardship Code" for the Financial Services Agency recently released the "Principles for Responsible Institutional Investors <Japan's Stewardship Code>" (the "Code"), as a set of principles that are considered to be useful for responsible institutional investors in fulfilling their "Stewardship Responsibilities".

[1] Article 3 of the Act on the Government Pension Investment Fund Independent Administrative Agency (the "GPIF Act") (Act No. 105 of 2004)

- "Stewardship Responsibilities" as prescribed in the Code means the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering corporate value and sustainable growth of Japanese listed investee companies, through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment.

- While Article 20, Paragraph 2 of the GPIF Act stipulates that the management and investment of the Reserve Funds should be conducted "in consideration of influences on the financial market and other private sector activities", the Expert Panel on Economic Assumptions for Pension Financing and Investment Objectives of the Reserve Funds under the Pension Sub-Committee of the Social Security Council for the Ministry of Health, Labour and Welfare suggested that formulation and disclosure, etc. of the policy in exercising voting rights should be considered in light of the Code, based on the above-mentioned Article, as well as on opinions from the Investment Committee of the GPIF, that includes members recommended by both labor and management. Since then the GPIF discussed possible acceptance, etc. of the Code.

- To enhance the medium- to long-term investment return for the insured by improving and fostering the investee companies' corporate value and sustainable growth is appropriate for the nature of the Reserve Funds, and critical for the GPIF that holds domestic equities over the long term. From such perspective, the GPIF accepts the Code, and will fulfill the stewardship responsibilities, by complying with the Code to the extent possible by the GPIF’s own, or understanding the implementation of the Code by the External Asset Managers, and also by disclosing the outlines of implementation every fiscal year.

－ In fulfilling the stewardship responsibilities, the GPIF should pay due consideration, with regard to investment of the Reserve Funds, for the following points as prescribed by applicable laws and regulations;

(1)the GPIF should manage and invest the Reserve Funds exclusively for the benefit of the insured;

(2)the GPIF should manage and invest the Reserve Funds in a safe and efficient manner from long-term perspective[2];

(3)the GPIF should consider influences on the financial markets and other private sector activities[3];

and also for the following points, etc., as indicated by the Medium-term Objectives;

(4)the GPIF should take appropriate measures such as exercising voting rights from the viewpoint of maximizing the long-term interest of shareholders, etc., while paying due consideration not to exert influence on corporate management in the private sector[4];

(5)the GPIF should not select individual share by GPIF’s own in equity investments, taking influences on corporate management into consideration[5].

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[2] Article 79-2 of the Welfare Pension Insurance Act (Act No. 115 of 1954) and Article 75 of the National Pension Act (Act No. 141 of 1959)

[3] Article 20, Paragraph 2 of the GPIF Act

[4] GPIF medium-term objectives Nos. 2-5(1)

[5] GPIF medium-term objectives Nos. 2-5(1)

2. The GPIF's Policy on the Respective Principles of the Code

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

− The GPIF as an "institutional investor as an asset owner" has formulated the "Policy for Fulfilling Stewardship Responsibilities" as set forth in the Exhibit, in order to comply with the Principle 1, and hereby disclose it.

(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.

−The Principle 2 will be implemented through the External Asset Managers, since the GPIF will not directly exercise voting rights, etc., by GPIF's own as described in Principle 3 through 5 and there will not be conflicts of interest to arise from the fulfillment of the stewardship responsibilities.

−Therefore, the GPIF will require that the External Asset Managers specify types of possible conflicts of interest to be managed in order to fulfill their stewardship responsibilities, based on their respective conditions, and formulate clear policies on them.

−The GPIF will also require that the External Asset Managers report to the GPIF on whether or not there exist any conflicts of interest, etc. between the major shareholders of the External Asset Managers and their clients, in consideration of capital structure of such managers, and will disclose the outcome of such reports.

(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.
(Principal 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.

- The Principle 3 and 4 will be implemented through the External Asset Managers, given that a) the GPIF invests in equities through such managers, b) the GPIF is required to pay due consideration not to exert influence on corporate management in the private sector under the Medium-term Objectives, and c)the GPIF will entrust the External Asset Managers with the exercise of voting rights as described in Principle 5.

- Therefore, the GPIF will require that the External Asset Managers comply with these principles, otherwise explain the reason that they do not comply with the principles.

- In addition, the GPIF will seek to understand monitoring of investee companies and engagement with investee companies by the External Asset Managers, by conducting hearings with such managers, in selection of such managers or annual evaluations, as necessary.

(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.

- The GPIF does not directly exercise voting rights and instead entrusts the External Asset Managers with the exercise of voting rights so as not to give rise to a concern that the GPIF could have a direct influence over private sector corporate management, under the Medium-term Objectives.

- However, in entrusting the External Asset Managers, the GPIF will suggest such managers that they should recognize the importance of corporate governance and that voting rights should be exercised to maximize the long-term interest of shareholders, and require such managers to report on their policy on voting and the voting activities to the GPIF.

- Specifically, the GPIF will have the External Asset Managers submit their guidelines on the exercise of voting rights and report on the status of exercise of the voting rights, and will hold meetings with the managers on the results, and in the annual evaluation process of each manager by the GPIF, the way a manager exercises voting rights is considered in the qualitative part of evaluation.

(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.

- The GPIF as an "institutional investor as an asset owner" will report periodically on how the stewardship responsibilities are fulfilled, in complying with this principle. As it is difficult to report to respective insured, the GPIF will report outlines that would be appropriate for public disclosure.

- Specifically, the GPIF will disclose on the website the outcome of the exercise of voting rights and the fulfillment of the stewardship responsibilities by the External Asset Managers between April and June when most Annual General Shareholders' Meetings are typically held, subsequent to reporting them to the Investment Committee, and will also disclose the outcome of the exercise of voting rights and fulfillment of the stewardship responsibilities by the External Asset Managers over the past full fiscal year in the Review of Operations for the relevant fiscal year.

- The GPIF will also disclose how the GPIF's stewardship responsibilities are fulfilled in the annual Review of Operations for the relevant fiscal year.

(Principle 7) To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.

- In order to comply with this principle properly as an "institutional investor as an asset owner", the GPIF will conduct hearings with the External Asset Managers based on perspective of 2(2)of the Exhibit, evaluate such managers based on 2(3) of the Exhibit, and review the policies on the stewardship responsibilities as necessary.