

## Summary of the 2<sup>nd</sup> Meeting of the Business and Asset Owners' Forum

The second Forum meeting was held on Wednesday, April 12, 2017 with the following member companies (in alphabetical order) and asset owners:

### Companies:

Asahi Group Holdings, Ltd.  
Eisai Co., Ltd. (\*)  
JFE Holdings, Inc.  
Nissan Motor Corporation (\*)  
Nippon Telegraph and Telephone Corporation  
OMRON Corporation (\*)  
Shiseido Co., Ltd.  
TOTO Ltd.

(\*) Three companies are organizers of the Forum.

### Asset owners:

Federation of National Public Service Personnel Mutual Aid Associations  
Pension Fund Association for Local Government Officials  
Promotion and Mutual Aid Corporation for Private Schools of Japan  
Government Pension Investment Fund, Japan

### Summary of opinions of the member companies:

#### A. Proxy voting, etc.

- Public comments are being solicited in relation to the draft revision of the Japan's Stewardship Code. We would like GPIF to take measures in line with our opinion expressed at the first Forum meeting, i.e. GPIF should develop proxy voting principles.
- In the course of companies and long-term investors in the same boat working together to create sustainable long-term corporate value with a focus on ESG issues, companies see that not all asset managers have a long-term viewpoint. It would be reassuring if asset owners, in accordance with the stewardship principles and voting principles, declare their investment policies based on a long-term viewpoint and carry out engagement with individual asset managers.
- Asset owners are supposed to communicate their views to asset managers, and asset managers are then supposed to engage in dialogues with companies. We have some doubt about whether asset managers in charge of dialogues with companies make investment decisions and voting decisions in an integrated manner. Some asset managers do not disclose their voting decisions to companies, in which case the company management would not be able to leverage the investors' voting decisions in solving issues faced by their companies.

- Voting undertaken by only directly applying a pro forma standard is less professional. A pro forma standard may be usable but a decision should be made comprehensively. When we tell this to institutional investors, they say objectivity would be reduced. However, objectivity does not always lead to a proper assessment.

#### B. Disclosure of ESG information; Sustainable Development Goals (SDGs)

- The management of Japanese companies is generally described by overseas investors as being considerably less sensitive to stock prices. This is signified by the fact that annual reports and integrated reports published by Japanese companies contain very few pages describing stock price performance.
- Non-financial capitals, such as intellectual capital, instrumental capital and human capital, are linked with future equity spreads, ROE and other factors. When it comes to the relationship between non-financial capitals and SDGs, inputs of each of these capitals bring about returns in the form of achievement of SDGs, which are then evaluated by the price book-value ratio that represents ROE and stock price return from an economic and long-term perspective. If PBR exceeds 1, the relevant capital would be a value creator.
- Financial information shows the degree of performance compared to the planned level and suggests the probability of attainment of the plan in the future. It is, in the end, information on the past. On the other hand, non-financial information, such as ESG information, affects the future attainment of a plan.
- Investors uniformly say that ESG activities should be conducive to enhancement of corporate value, while applying different evaluation methods. Recently, investors can be categorized into three types: (1) those putting emphasis on governance; (2) those putting emphasis on management of risks on the environment and society; and (3) those acting in line with the concept of Creating Shared Value (CSV), i.e. the company can enhance its value by providing services that are needed in society on an ongoing basis.
- Profits are behind customers' satisfaction. Those who only pursue profits will never be able to grasp the substance. A company that is accepted as an indispensable entity in each country where it runs business is the best company in terms of corporate branding.
- With SDGs having been presented as a global framework, it would be beneficial for each company to disclose the initiatives that it undertakes independently based on SDGs.
- We have recently been advised by an investor that SDGs may possibly become a common language among investors, so we could associate our CSR activities with SDGs in order to gain investors' understanding.
- SDGs can serve as an effective communication tool, and they might also be applicable in the process of a company to extract the challenges facing it and identify their materiality.
- Within our company, we have discussed to what degree we have complied with SDGs so far, but we have reached a conclusion that SDGs do not completely accord with the initiatives we should undertake.

- At present, only about half of our company's board members properly understand SDGs. We are aware that it is the role of IR and SR managers to instill this concept throughout the company and leverage this conceptual framework in our management.
- During overseas SR (Shareholder Relations) activities, we were frequently asked about our future approach in connection with the Paris Agreement (a new international framework for reducing greenhouse gas emissions in 2020 and onwards), especially most recently. We currently undertake initiatives only within the industry-wide framework, but we are considering appropriate disclosure and long-term management goals as our independent initiatives.

C. Release of topics and summary of discussions

- At the second Forum meeting, as in the case of the first meeting, the companies at the Forum unanimously agreed and requested that GPIF release a summary of the discussions on Chatham House Rule basis.

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