

Summary of the 4th Meeting of the Businesses and Asset Owners' Forum

The fourth Forum meeting was held on Friday, April 6, 2018 with the following member companies (in alphabetical order) and asset owners:

Companies:

Asahi Group Holdings, Ltd.

Eisai Co., Ltd. (*)

Hitachi, Ltd.

JFE Holdings, Inc.

Mitsubishi Chemical Holdings Corporation

Nippon Telegraph and Telephone Corporation

Nissan Motor 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

National Federation of Mutual Aid Associations for Municipal Personnel

Promotion and Mutual Aid Corporation for Private Schools of Japan

Government Pension Investment Fund

Summary of the meeting:

A. Report by GPIF on stewardship activities and recent discussions about ESG, etc. globally

- GPIF formulated the Stewardship Principles and the Proxy Voting Principles last year, and has clearly requested its asset managers to consider ESG issues. While we have called for proactive engagement in material ESG issues to them, we are not in a position to specify which themes are considered material. Since GPIF has neither in-house equity investment nor corporate analysis function, and actual issues differ depending on the characteristics of the industries and companies and their respective stages, we judge that it is more appropriate to ask our asset managers that actually engage in corporate analysis and valuation as well as dialogue with

companies to identify material ESG issues and conduct engagement with the companies.

- Overseas asset managers often utilize joint engagement as one of the engagement tools with investee companies. One of the key topics is executive compensation. On the assumption that this scheme and content can be utilized for asset owners' dialogue with asset managers, GPIF set "joint engagement by asset owners with external asset managers" and "the compensation scheme for executives and employees of asset managers" as this year's challenges in GPIF's Stewardship Activities Report. However, since we do not possess know-how to confirm if the remuneration system for executives and employees at asset management companies contributes to long-term returns anticipated by asset owners, we are planning to consider the possibility of hiring a human resources consulting firm.
- The Task Force on Climate-related Financial Disclosures (TCFD) and Climate Action 100+ have been at the center of global discussions since autumn of last year. The Financial Stability Board (FSB) established TCFD at the G20's request, and it announced the recommendations calling for the disclosure of climate-related information that will facilitate more informed business and investment decision-making in June 2017. Climate Action 100+ is an investor-led initiative that was launched in September 2017. In this initiative, its member investors engage the Systemically Important Carbon Emitters (SICEs) to make their disclosures in accordance with TCFD. We expect that it becomes a global initiative going forward given the announcement at the PRI and its official launch at the One Planet Summit held in France in December 2017.

B. Summary of discussions among the participant companies

The participant companies held free discussions on various topics, from the validity of corporate valuation by ESG research and rating agencies such as index providers, and disclosure of ESG information including Integrated Reports, to ESG-related initiatives based on dialogue with investors.

<Validity of corporate valuation by ESG research and rating agencies such as index providers>

- Through the disclosure of methodologies used for ESG indices, how companies are rated became clear, making it easier for them to engage in dialogue with ESG rating agencies. Since rating criteria are unified globally, they can become formal in some cases, making it difficult to grasp the actual stage of companies. In order to fill such gaps, it is necessary to promote dialogue with ESG rating agencies and bring the criteria more in line with actual conditions.
- CO₂-related issues are very serious and we must fulfill our accountability in this regard. During production processes, we are forced to use non-replaceable raw materials that are associated with a high environmental burden. Despite our efforts for technical innovation, it is difficult to gain an adequate understanding. We also encounter difficulties during our dialogue with investors and ESG research companies. What can we do in order to ensure correct understanding?

<Disclosure of ESG-related information including Integrated Reports>

- As GPIF announces "Excellent Integrated Reports" selected by its external asset managers, there has been a trend that preparation of Integrated Reports itself has become the purpose, with some companies focusing on impressive

look or leaving everything to a design and production company. The main purpose should be management reforms and identification of materiality based on integrated thinking. We should focus on how to communicate such messages to investors both from financial and non-financial perspectives.

- Both Integrated Reports and Annual Reports are communication tools that provide a trigger for dialogue. It is essential for us to utilize such tools to integrate what companies want to communicate and what investors want to know. As a starting point, what we have learned about rating methods by index providers and what we have learned from investors through dialogues should be shared by directors and management people to make them most for business management.
- Integrated Reports provide an opportunity to describe business models. In order to ask for long-term investment from equity investors without any collateral, it is vital to demonstrate not only past financial information but also a future plan for value creation going forward by executing management strategies based on ESG initiatives and the corporate mission and vision.
- During overseas IR, some investors pointed out that employee safety was not stated in the Integrated Report. While we explained that it was not stated in the report because it is an obvious matter, we feel that it may be necessary to include those obvious matters after all in light of their significance as the basis for the existence of our company.

<ESG-related initiative in light of dialogue with investors>

- From the perspective of corporate management, the focus on corporate governance has now shifted from its format to quality. As shown in examples of TCFD and Climate Action 100+, the themes that companies have to consider and take measures for as well as their scope have expanded into overall ESG matters. This is the result of efforts by participants in the investment chain to overcome individual issues. I believe that progress has been made with regard to dialogue between companies and investors.
- We have established a Sustainability Strategy Committee chaired by the CEO. Based on discussions at the Committee, we have issued a report specialized in information on SDGs, relevant management strategies of each business, and commitments made as a company such as inclusion and diversity. This is based on our belief that it is important to actively disseminate such information towards outside the company.
- While we have had a number of discussions with investors and index providers over the last six months, we feel that overseas investors in particular have shifted from formalism towards substantialism. Many investors stated that even if formal criteria are not yet met, they would consider making investments as long as we can provide satisfactory explanations. Japanese investors, on the other hand, still appear to place a little focus on formality criteria.
- The key point is how to incorporate ESG issues into business strategies. While the initiative had been led by the head offices, we would like to make it more meaningful by increasing dialogues within the company and the group, as it is difficult to address ESG issues unless we recognize the importance of ESG-related initiatives at the business unit level and strive to achieve them as targets.
- When we implemented initiatives at the business unit level, it was difficult to set goals unless they could be quantified. Therefore, we tried to quantify them through trial and error. I think that our initiatives finally took root

in our workplace during the process of setting five year goals and formulating annual plans towards these goals.

- As a topic for our discussions with investors, the ratio of ESG-related issues has been steadily increasing. In fact, while the ratio was around 15% two years ago, it increased to over 20% last year. We also started to conduct dialogue with index providers and established the ESG promotion department, reflecting increased interest among directors and collaboration among other departments.

C. Comments and questions from asset owners

<GPIF's comments on "Excellent Integrated Reports" selected by GPIF's asset managers entrusted with domestic equity investment>

- As we have heard opinions from companies suspecting that Integrated Reports may not be utilized enough by investors despite the time and efforts expended, we decided to disclose Excellent Integrated Reports so as to promote usage among investors. Our intention was not to ask all companies to prepare Integrated Reports; rather, the main point was the "embodiment of Integrated Thinking" through the integration of non-financial information including ESG into financial information and the disclosure of such information. This is why some of the companies selected for Excellent Integrated Reports did not actually prepare the reports. We would like companies to disclose their ESG information using the most suitable communication tools without being constrained by media.

<Responses of companies regarding questions concerning the implementation of IR activities targeting fixed income investors>

- IR activities for fixed income investors are limited to roadshows at the time of issuance. One response predicted that bondholders also monitor corporate earnings and credit ratings from a risk management perspective. Another company indicated that it holds regular Debt IR once a year.

[Release of topics and summary of discussions]

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