



# Stewardship Activities Report 2023-2024

March 2024

GPIF  
Homepage



GPIF  
YouTube channel



GPIF  
X



年金積立金管理運用独立行政法人  
Government Pension Investment Fund

## Topics for FY2023

### Global Asset Owners' Forum was held [📄\(See page 23 for details.\)](#)

After suspension of the Forum due to the COVID-19 pandemic, the Global Asset Owners' Forum was re-held for the first time in four and a half years following. Global Asset Owners' Forum members had a meeting with the Japan Business Federation (Keidanren) and its corporate members during the "Japan Weeks," in which the annual general meeting of PRI was held in Tokyo. At the meeting, we exchanged views on corporate governance, sustainability issues such as climate change, and the exercise of voting rights. Apart from the meeting with Keidanren, a discussion was held among the asset owners concerning expectations for information disclosure, and the opinions of the members were summarized and published.

### Measurement of the effects of stewardship activities and environmental, social, and governance (ESG) investment [📄\(See page 44 for details.\)](#)

We implemented measurement of the effects of stewardship activities and ESG investment in collaboration with an external organization. In March 2023, GPIF announced an open call for the quantitative analysis consulting, and selected UTokyo Economic Consulting Inc. and EY Strategy and Consulting Co., Ltd. Since FY2023, the measurement of the effects of stewardship activities was jointly conducted with UTokyo Economic Consulting Inc. in terms of "1. (1) Verification of the effects of engagement," and with EY Strategy and Consulting Co., Ltd., in terms of "2. (1) Study of ESG factors which contribute to the improvement of corporate value and investment returns," respectively. The results will be announced upon finalizing the analyses.

#### 1. Measurement of the effects of stewardship activities

- (1) Verification of the effects of engagement (Research into the causation between the engagement and ESG ratings/ improvement of corporate value)
- (2) Verification of the exercise of voting rights by external asset managers (Changes in the difference between how voting rights have been exercised for companies with which there is a potential conflict of interest and other investee companies\*)

#### 2. Measurement of the effects of ESG investment

- (1) Research on ESG factors that contribute to the improvement of corporate value and investment return (Research into the causation between the ESG factors and the improvement of corporate value/investment returns)
- (2) Verification of the effects of passive equity investment based on ESG indices (Analysis of the impact of ESG investment on corporate behavior\*)

\*The specific analyses are subject to change depending on further discussions.

## Posting videos on social media platforms X (Twitter) and YouTube

Since FY2023, GPIF has posted a series titled “GPIF’s ESG and Stewardship Activities” on X (Twitter) on a weekly basis. We have also continued posting YouTube videos on YouTube since FY2022, in which GPIF’s stewardship activities and ESG investment are introduced. and You Tube videos are mainly aimed at those at companies which are engaged in ESG-related work or IR/engagement activities with investors as well as those at asset management companies.



ポスト



GPIF   
@gpiftweets

2023年3月に東証が「資本コストや株価を意識した経営の実現に向けた対応について」を公表し、[#PBR](#)への注目が集まっています。PBR1倍割れは企業の持続可能性に市場から懸念が示されている状態とも言えます。[#PBR](#)を含めた資本コストに関する開示や対話の広がりが期待されています。

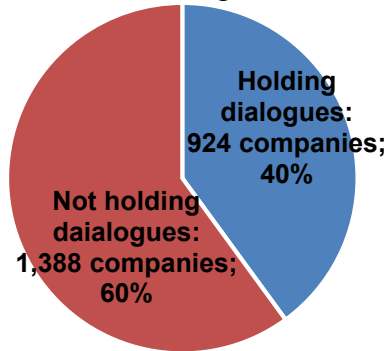


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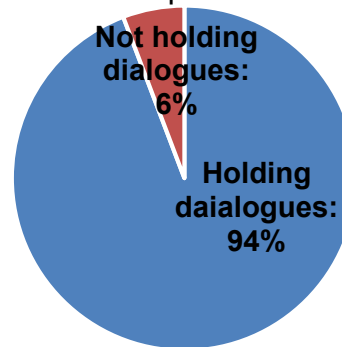


## Status of Engagement by GPIF's External Asset Managers (January to December 2023)

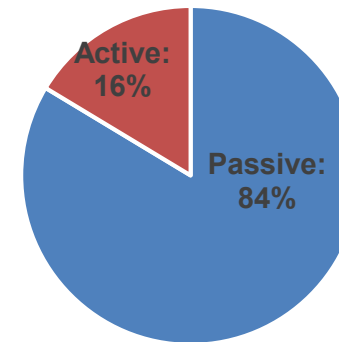
Number of companies that held dialogues



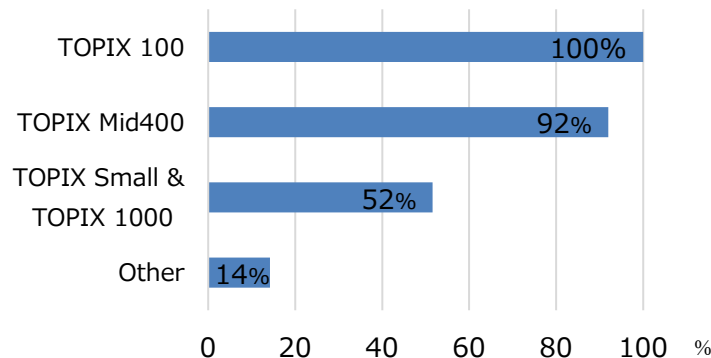
Ratio of companies that held dialogues (on a market capitalization basis)



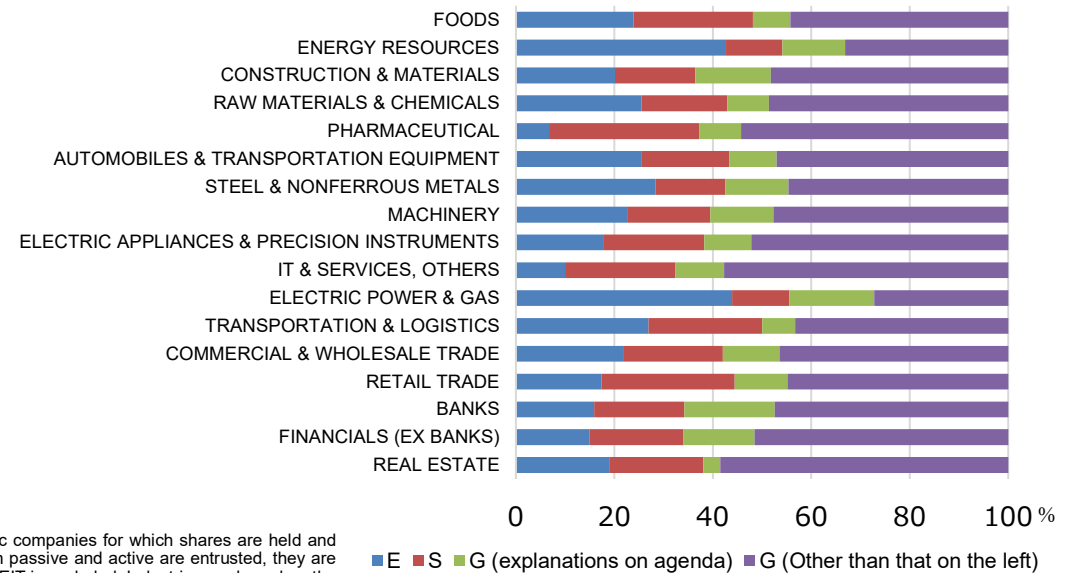
Number of dialogues held (passive and active ratios)



Ratio of dialogues implemented by company scale



Ratio of topics of ESG dialogues by industry



Note 1: The ratio of the number of companies with which dialogues were held was calculated with the number of domestic companies for which shares are held and market capitalization as of March 31, 2023, as a denominator. Regarding passive and active ratios, in a case in which both passive and active are entrusted, they are counted by the mandate which is more entrusted by GPIF. (The company scales represent those as of March 31, 2023.) J-REIT is excluded. Industries are based on the TOPIX-17 series.

Note 2: GPIF does not highly evaluate asset managers based solely on the number of engagements, in order to avoid an increase in perfunctory dialogues.

[See pages 28 to 30 for details.](#)

## Characteristics of Four Engagement-enhanced Passive Managers and their Progress

Considering that GPIF invests in a wide range of listed companies by passive investment which accounts for approximately 90% of GPIF's equity investment, the long-term growth of the overall market is essential for the improvement of investment return. For passive investment, we believe that efforts for engagement activities are critical to encourage investee companies to achieve a long-term increase in corporate value and, to promote sustainable growth of entire markets in particular. Therefore, with the aims of achieving sustainable growth of the overall market through stewardship activities, as well as diversifying and enhancing the approach methods of stewardship activities, GPIF selected engagement-enhanced passive investment since 2018. Following four funds have been selected so far. See [pages 32 to 39](#) for details, including the individual progress.

	Characteristics of engagement
<b>Asset Management One</b> Started in 2018.	Engagement on 18 ESG issues is conducted by ESG analysts and the person in charge of voting rights who have over 20 years' experience, in collaboration with fund managers and analysts from the asset management division. The engagement activity makes tangible investee companies' challenges, contributing to the improvement of their corporate value.
<b>FIL Investments</b> Started in 2018.	Aims for efficient enhancement of $\beta$ by urging companies with a strong impact on indices to make reforms, utilizing knowledge of analysts of active investments. The agenda of engagement is identified from the perspectives of creating corporate value, and the improvement of profitability and growth potential is pursued by enhancing companies' competitiveness.
<b>Sumitomo Mitsui Trust Asset Management</b> Started in 2021.	Adopts multi-engagement model in which the upper management (chairperson or president) actively participates in engagement. The effects of engagement are maximized for the increase of corporate value by combining a top-down approach based on ESG materiality and a bottom-up approach from the business operation levels, along with policy engagement.
<b>Resona Asset Management</b> Started in 2021.	Engagement based on the analyses of integrated reports using AI. Aims to improve the corporate value of investee companies by encouraging disclosure in integrated reports and setting qualitative improvement as interim targets and triggers. At present, the scope has been expanded to the Securities Report and TCFD-based analysis.



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# **Chapter 1. Stewardship Activities of GPIF**





## 1. Introduction

### **GPIF signed Japan’s Stewardship Code (hereinafter, “the Japan Code”) in May 2014.**

In the Japan Code, “**stewardship responsibilities**” refers to the responsibilities of institutional investors to enhance medium- to long-term investment returns for their clients and beneficiaries (including the ultimate beneficiaries; the same shall apply hereafter) **by improving and building the investee companies’ corporate value and sustainable growth** through constructive engagement, or purposeful dialogue (engagement), based on in-depth knowledge of the investee companies and their business environment, **with consideration of sustainability (medium- to long-term sustainability including ESG factors)** that is consistent with their investment management strategies.

In accordance with the Policy to Fulfill Stewardship Responsibilities which GPIF formulated for the signing, GPIF will endeavor to achieve its mission to contribute to the stability of pension system management by focusing on the expansion of long-term investment returns for pension beneficiaries through various activities to fulfill the stewardship responsibilities.

The Japan Code consists of the following eight principles.

#### **The Principles of the Code**

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
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.
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.
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.
6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.
7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.
8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.



## 2. History of GPIF's Stewardship Activities

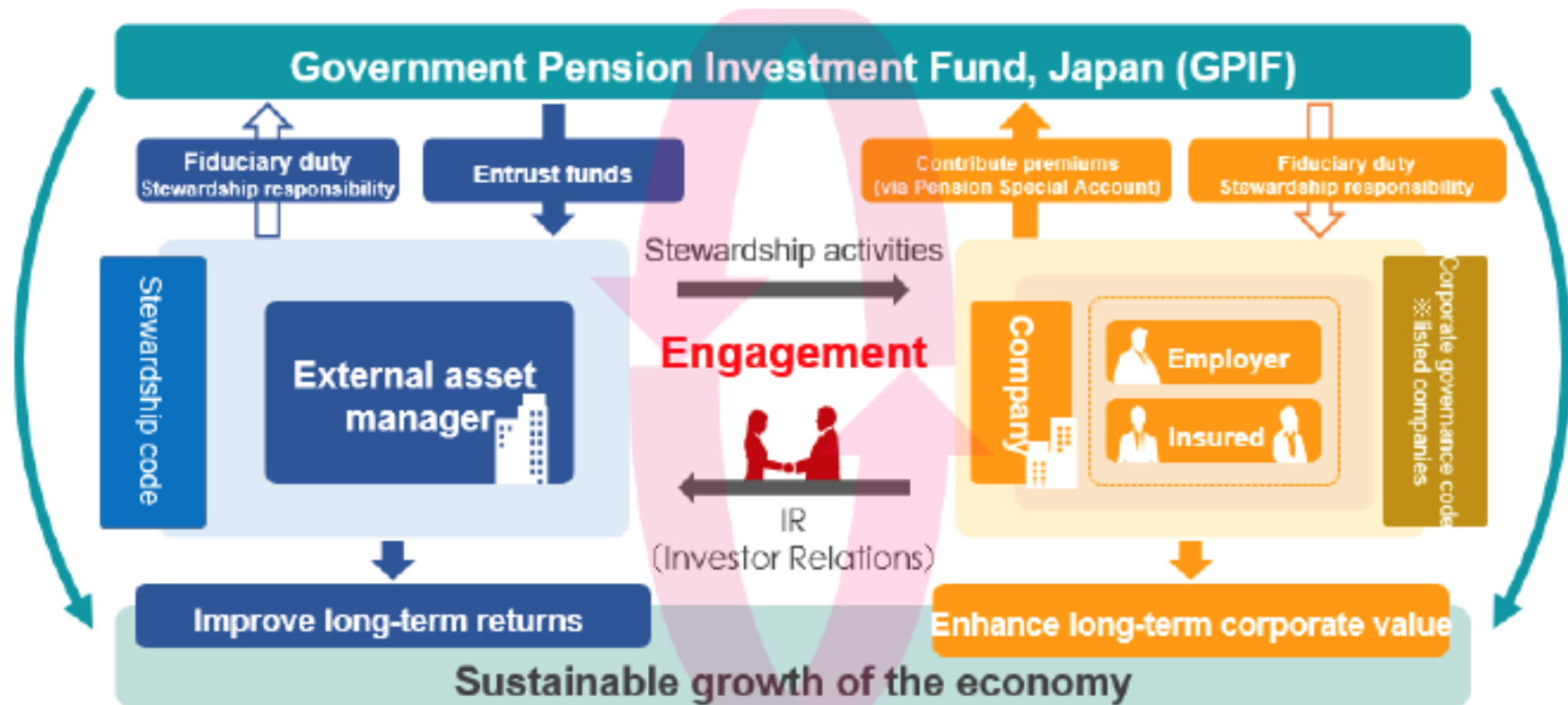


### 3. Stewardship Activities for GPIF

GPIF is a **universal owner** with a very large fund size and a widely diversified portfolio, as well as a **cross-generational investor** designed as a part of a 100-year sustainable pension scheme. Given such features, prevention of activities that impede corporates' long-term growth as well as sustainability of the overall capital market is essential for us. Therefore, GPIF contributes towards the sustainable growth of the overall capital market through the following activities.

As GPIF invests in equities and exercises voting rights through its external asset managers, except for some assets, **we promote constructive dialogue (engagement) between asset managers and investee companies, taking into consideration ESG factors that contributes to sustainable growth.**

Improvement of long-term corporate value will lead to growth of the overall economy, which will eventually enhance our long-term investment returns. GPIF shall fulfill its stewardship responsibilities by promoting engagement and building a win-win environment in the investment chain.





## 4. Status of Participation in Various Initiatives

GPIF has participated in a variety of initiatives since it signed the Principles for Responsible Investment (PRI) in September 2015. By participating in these initiatives, GPIF has accumulated knowledge on stewardship and ESG, which is utilized for evaluation of the stewardship activities of its external asset managers.

Furthermore, GPIF has participated in domestic organizations which promote disclosure. Prohibited from in-house investing of equity by the relevant regulation, GPIF invests and exercises voting rights through its external asset managers. Therefore, GPIF promotes dialogue between its external asset managers and investee companies. GPIF believes that disclosure is important for both parties to conduct efficient dialogue. Particularly, disclosure of ESG information is likely to gain in importance as non-financial information disclosure becomes more significant going forward.

Signatory of:



### PRI (Principles for Responsible Investment)

#### Signed in September 2015

Six principles advocated in 2006 by Mr. Annan, then-Secretary General of the United Nations. PRI demands institutional investors to include ESG in the investment process.

GPIF participated in Global Policy Reference Group, Japan Network Advisory Committee, etc.

In 2023, GPIF also participated in “PRI in Person,” attending the asset owners’ meetings, etc.

#### Results of the most recent assessments are as follows:

Policy Governance and Strategy	★★★★
Indirect - Listed equity – Passive	★★★★
Indirect - Listed equity - Active	★★★★
Indirect - Fixed income - Passive	★★★★
Indirect - Fixed income - Active	★★★★
Indirect - Infrastructure	★★★★
Confidence building measures	★★★★





**30% Club and Thirty Percent Coalition  
Joined the 30% Club in the UK, and the Thirty Percent Coalition of the United States in November 2016.**

**Joined the 30% Club in Japan in December 2019.**

Both organizations were established to seek gender diversity in boards of directors, with the aim of achieving 30% female directors.

GPIF attended the annual general meeting of the Thirty Percent Coalition held in November 2023.



**Climate Action 100+  
Joined in October 2018**

This investor-led initiative was established in September 2017. Via constructive dialogue with companies that are significantly influential in formulating possible solutions to global environmental issues, it focuses on the improvement of climate change-related governance, initiatives for the reduction of greenhouse gas emissions, the enhancement of information disclosure, and more.

As an asset owner, GPIF has also joined the Asia Advisory Group, which provides the Climate Action 100+ steering committee with advice on the characteristics of the Asian region. Also, GPIF attended a meeting of Climate Action 100+ member investors that was held in September 2023.



**TCFD (Task Force Climate-related Financial Disclosures)  
Supported in December 2018**

TCFD was established by the Financial Stability Board (FSB) at the request of the G20 Finance Ministers and Central Bank Governors Meeting. In June 2017, the TCFD published voluntary recommendations to encourage information disclosure on the financial impact of climate-related risks and opportunities to enable appropriate investment decisions by investors.

Concurrent with the release of its 2023 status report on October 12, 2023, the TCFD has fulfilled its remit and disbanded. The FSB has asked the IFRS Foundation to take over the monitoring of the progress of companies' climate-related disclosures.

GPIF has made its disclosure in line with the TCFD recommendation since 2019, publishing a TCFD-based disclosure in the "2022 ESG Report" in August 2023.



**CII (Council of Institutional Investors)  
Joined in August 2019**

Established by a U.S. public pension fund with the aim of promoting shareholders' rights and corporate governance and collaborating in the United States.



**ICGN**

International Corporate Governance Network

## ICGN (International Corporate Governance Network) Joined in August 2019

This industry association was established by institutional investors and others. It focuses on the improvement of corporate governance and encouragement of stewardship activities with the aim of promoting efficient markets and a sustainable economy.

In 2023, GPIF attended the ICGN Member Meeting held in May, and took the podium at the ICGN-NBIM Company & Investor Engagement Meeting jointly held by ICGN and Keidanren in October.

## Domestic organizations promoting disclosure



### JPX ESG Knowledge Hub Participated as a supporter in November 2020.

The ESG Knowledge Hub was established in November 2020 by JPX from the viewpoint of promoting disclosure of ESG information by listed companies for the purpose of enabling one-stop access to content and information which will help understand ESG investments, and making the ESG Knowledge Hub a community that connects listed companies, investors, and related organizations.

The purposes of the ESG Knowledge Hub are consistent with the intent of GPIF's stewardship activities, that is, to encourage engagement between its external asset managers and investee companies, taking into consideration ESG factors that contribute to sustainable growth. GPIF believes that the progress of ESG disclosure by listed Japanese companies will enhance the Japanese equity market.

GPIF agreed with the purpose of its establishment, participating as a supporter from the beginning, with a qualification for participation as an investor and related organization. (As of now, there are approximately 60 supporters, consisting of domestic and overseas investors as well as relevant organizations including ministries and other government agencies.)



一般社団法人

**ESG情報開示研究会**

### ESG Disclosure Study Group Participated as an observer in February 2023.

The major challenge for many Japanese companies and institutional investors is how they should face the trend of ESG disclosure that has been dramatically changing globally. The ESG Disclosure Study Group was established in June 2020 with the aim of providing listed companies and investors with opportunities for free and open discussions while enriching ideas on the ideal disclosure of non-financial information to contribute to the long-term improvement of corporate value, while paying close attention to global trends.

Its main activities include: 1) searching for an effective and efficient framework of ESG information disclosure, 2) accumulating implementation examples (verified) related to ESG information disclosure, 3) promoting mutual understanding among stakeholders for better decision-making, and 4) publishing white papers on study results.

## 5. Engagement with External Asset Managers

- GPIF communicates with external asset managers through an engagement model that emphasizes two-way communication while expressing our way of thinking toward stewardship responsibilities. Regarding meetings with external asset managers, GPIF has also established a system to hold meetings and conduct questionnaire surveys as necessary, such as stewardship meetings according to ad-hoc topics and necessary issues, in addition to the general evaluation meeting held on an annual basis.
- In 2023, GPIF conducted dialogues (including evaluation meetings) mainly with asset managers entrusted with North American equity investments selected in FY2022 and other asset managers for foreign equities. Furthermore, GPIF had more opportunities for in-person dialogues throughout the year, such as in-person dialogues with asset managers who visited Japan to attend “PRI in Person Tokyo” in October 2023. In addition, GPIF also attended in-person or on-line conferences and seminars hosted by asset managers and held dialogues with asset managers abroad, resulting in increase of the opportunities for exchange of views. We will continue to increase opportunities for dialogues, mainly with newly selected asset managers.
- We hold individual meetings and briefing for asset managers when GPIF establishes new policies or makes significant policy changes, in order to provide sufficient information such as the background, concepts, and GPIF’s awareness of issues. We focus on conducting two-way communication via exchange of views and feedback through Q&A sessions and the follow-ups.
- In 2023, following the selection of new external asset managers engaging in active domestic equity investment, GPIF implemented individual engagement for asset managers—including newly selected ones—concerning GPIF’s views and what is expected from external asset managers, in addition to holding briefing session for asset managers.

### <Briefing for external asset managers>

- Briefing for external asset managers February 2024)

Reviewing activities in FY2023, GPIF answered questions by asset managers, explained future responses and GPIF’s stewardship activities and others, and exchanged views with them.





## <Status of PRI and TCFD approval by external asset managers>

- In the Stewardship Principles, GPIF has stipulated “ESG integration into the investment process” and requires our external asset managers to sign the PRI. In the February 2020 revision, GPIF required its external asset managers to proactively participate in various initiatives.
- GPIF has conducted a questionnaire survey and interviews with its external asset managers entrusted with equity and fixed income, asking the status of their participation in initiatives such as PRI and TCFD. The status of support for the PRI as well as the status of their disclosure are outlined below. Participation in TCFD is an example of initiatives, to which an increasing number of Japanese companies have expressed their support.
  - All external asset managers entrusted with equity and fixed-income investments, including those newly appointed, are signatories of the PRI (as of December 2023).
  - Slightly less than 90% of external asset managers have expressed their support for TCFD, including those who have supported TCFD as their corporate group.
  - Of the asset managers who agree with TCFD, little less than 90% have implemented the disclosure. Some asset managers are now considering disclosure for the next fiscal year. The status of disclosure continued to vary depending on asset managers. Some issued independent publications such as a TCFD Report or Climate Report, and others posted their disclosure as a part of their sustainability report or similar publication. Also, some asset managers posted an announcement on their websites, or regarded the PRI reporting as their disclosure. Many asset managers are positive toward better disclosure in various ways.
- In many cases, TCFD disclosure is an engagement topic with investee companies. The knowledge and experience regarding disclosure of asset managers is likely to serve as a reference and encouragement to corporate disclosure while sharing the current status with investee companies.

## <Critical ESG issues listed by asset managers>

- In the Stewardship Principles, GPIF has stipulated “ESG integration into the investment process.” Based on this, GPIF conducts a questionnaire survey and interviews every year concerning critical ESG issues selected by each external asset manager entrusted with equity and fixed-income investment.
- The interview results were published in March 2024 as Critical ESG Issues Listed by GPIF’s Asset Managers on the following site:  
[https://www.gpif.go.jp/en/investment/20240419\\_esg\\_issues\\_en.pdf](https://www.gpif.go.jp/en/investment/20240419_esg_issues_en.pdf)



- Please refer to [page 40](#) for the Critical ESG Issues Listed by GPIF’s Asset Managers entrusted with equity and fixed-income investment. Questions on fixed-income investment were asked on the assumption of corporate bonds. For government and public bonds, GPIF received open answers if asset managers established critical ESG issues. The transition of critical ESG issues listed by asset managers for domestic equities for the past three years are also displayed on [page 41](#).
- In this survey, some asset managers were observed to have significantly changed their critical ESG issues. Based on the results, GPIF ascertains why they highlighted such issues, to what policy their changes were attributable, and how they will engage with investee companies regarding them.
- In order to promote smooth dialogue between investee companies and investors, GPIF also asked investee companies their principle ESG topics in the Ninth Survey of Listed Companies Regarding Institutional Investors’ Stewardship Activities conducted in January 2024.

### <ESG integration>

- GPIF is committed to “ESG integration into the investment process” in the Stewardship Principles. In the Stewardship Activities Report 2022, GPIF set forth its ESG integration across different investment styles under the section of “Expectations and Challenges for External Asset Managers.”
- As a signatory to PRI, GPIF defines ESG integration in accordance with PRI’s definition as follows.

**“ESG should be expressly and systematically incorporated in investment analysis and investment decisions.”**

- In the Assessment of ESG Integration, GPIF has begun to include the assessment of ESG Integration as part of the Investment Process since the comprehensive assessment (for equity and fixed-income) conducted in 2019. Matters such as ESG policy, ESG data gathering and importance analysis, changes in impact on the corporates/sectors, and application to investment decision are assessed in the management process.
- ESG-related engagement and exercise of voting rights are assessed as part of the “Stewardship Activities.”



## <Request for disclosure of the details of proxy voting records>

In the Proxy Voting Principles, GPIF asks its external asset managers to publicly disclose proxy voting records for each investee company. All external asset managers entrusted with domestic equity investment disclosed their proxy voting records.

It should be noted, however, that the frequency and details of the disclosure vary depending on each asset manager, and GPIF will continue to conduct engagement for the improvement of disclosure.

### Reference: Asset managers that have publicly disclosed the details of proxy voting records (GPIF's external asset managers for domestic equities [Source: FY 2022 Annual Report])

Asset managers entrusted with domestic equity investment	Disclosure websites for proxy voting records
Asset Management One	<a href="http://www.am-one.co.jp/company/voting/">http://www.am-one.co.jp/company/voting/</a>
Invesco Asset Management (Japan)	<a href="https://www.invesco.com/jp/ja/policies/proxy.html">https://www.invesco.com/jp/ja/policies/proxy.html</a>
Capital International (Capital International, Inc.)	<a href="https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html">https://www.capitalgroup.com/advisor/jp/ja/proxy-voting.html</a>
Schroders Investment Management (Japan)	<a href="https://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/">https://www.schroders.com/ja-jp/jp/asset-management/about-schroders/proxy-voting/</a>
Nomura Asset Management	<a href="https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html">https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html</a>
FIL Investments	<a href="https://www.fidelity.co.jp/about-fidelity/policies/investment/voting">https://www.fidelity.co.jp/about-fidelity/policies/investment/voting</a>
BlackRock Japan	<a href="https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting">https://www.blackrock.com/jp/individual/ja/about-us/important-information/voting</a>
Sumitomo Mitsui DS Asset Management	<a href="https://www.smd-am.co.jp/corporate/responsible_investment/voting/report/">https://www.smd-am.co.jp/corporate/responsible_investment/voting/report/</a>
Sumitomo Mitsui Trust Asset Management	<a href="https://www.smtam.jp/company/policy/voting/result/">https://www.smtam.jp/company/policy/voting/result/</a>
Mitsubishi UFJ Trust and Banking	<a href="https://www.tr.mufg.jp/houjin/jutaku/about_stewardship.html">https://www.tr.mufg.jp/houjin/jutaku/about_stewardship.html</a>
Lazard Japan Asset Management	<a href="https://www.lazardassetmanagement.com/jp/ja_jp/references/sustainable-investing">https://www.lazardassetmanagement.com/jp/ja_jp/references/sustainable-investing</a>
Russell Investments Japan (Russell Investments Implementation Services, LLC)	<a href="https://russellinvestments.com/jp/legal/proxy">https://russellinvestments.com/jp/legal/proxy</a>
Resona Asset Management	<a href="https://www.resona-am.co.jp/investors/giketuken.html">https://www.resona-am.co.jp/investors/giketuken.html</a>

Note: Names in parentheses indicate subcontractors. URLs are based on information current as of March 7, 2024.

## 6. Assessment of “Stewardship Activities” by Asset Managers

### <Assessment of stewardship activities by equity managers>

- A comprehensive assessment of asset managers is conducted through qualitative assessment while taking into consideration quantitative achievements.
- Approximately 90% of GPIF’s equity investment is passively managed, and GPIF invests in a wide range of listed companies. For the improvement of returns for GPIF, the sustainability of the entire market is crucial. Therefore, we believe that it is critical for passive managers to implement engagement activities, which can encourage investee companies to increase their corporate value and the sustainable growth of the entire market from the long-term perspective.
- In the May 2017 revision to Japan’s Stewardship Code, the importance of dialogue in passive investment is clarified, and the possibility of collaborative engagement is also referred to as a means of dialogue. Furthermore, in the second revision of the Stewardship Code published in March 2020, “consideration of sustainability consistent with investment management strategies (medium- to long-term sustainability including ESG factors)” was added to the definition of stewardship responsibilities. Thus, ESG to fulfill stewardship responsibilities has been growing increasingly important.
- The second revision clarifies the expectations for Stewardship activities with consideration of ESG factors, particularly its significance in passive investment. GPIF highly evaluates asset managers who fulfill stewardship responsibilities more effectively.
- With respect to the initiatives for stewardship responsibilities, passive investments are assessed in terms of their contribution to the long-term improvement of corporate value of investee companies and the sustainable growth of the entire market, whereas active investments are assessed in terms of their contribution to increasing shareholder value of the investee companies in the long run.
- Since the introduction of the Stewardship Code in 2014, the stewardship activities of asset managers have been formally well organized. Following the second revision of the Stewardship Code, GPIF changed the assessment system of initiatives for stewardship responsibilities from the 2020 comprehensive assessment to a system in which more substantial activities are highly evaluated.
- Specifically, in this assessment, we exchange opinions on how asset managers are working on stewardship activities, while confirming the following points. Information obtained from external providers is also referred.
  - ✓ **Framework (organizations, management of conflicts of interest)**
  - ✓ **Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)**

- ✓ Stewardship activities (policy, status, implementation of engagement)
  - ✓ ESG activities including responses to critical ESG issues listed by asset managers
  - ✓ Exercise of voting rights (topics, cases where judgments are divided among asset managers, process of judgments on exercising shareholder proposals, and others)
  - ✓ Responses to GPIF’s Stewardship Principles and Proxy Voting Principles, including disclosing the details of proxy voting records
- In cases where we acknowledge concerns about the governance of external asset managers—such as conflicts of interest—through reports and interviews, we communicate our concerns and engage in various opportunities, aiming to alleviate such concerns.

Weight	Equity passive	Equity active
Investment policy, investment process, organization, human resources, etc.	70%	90%
Stewardship responsibilities	30%	10%
Viewpoints of assessment of stewardship activities	Contribution to the sustainable growth of the market	Contribution to increasing shareholder value of the investee companies in the long term
Base for the assessment	(Common to both passive and active) Stewardship Code, GPIF’s Stewardship Principles and Proxy Voting Principles	

### <Assessment of stewardship activities by fixed-income managers>

- The scope of assets under stewardship responsibilities was expanded to all assets in accordance with the revised UK Stewardship Code that took effect in January 2020 (“The UK Stewardship Code 2020”). While assets subject to assessment were assumed to be Japanese listed equities, it was explicitly stated in the Japan Code which was again revised in March 2020 that other assets are also applicable. Accordingly, the stewardship activities of fixed-income investors have also made further progress.

- In response to the second revision to the Japan Code, GPIF expanded the scope of assets subject to the Policy to Fulfill Stewardship Responsibilities from equity to all assets, including fixed income in June 2020, and has been considering assessment methods for fixed income asset managers. As part of such initiatives, GPIF conducted a questionnaire survey on stewardship activities by external asset managers for fixed income in 2020. In the survey, GPIF ascertained the current measures on overall stewardship activities by external asset managers, including the status of implementation of engagement activities, as well as their future plans and challenges.
- Based on the above, stewardship activities by external asset managers for fixed income have been assessed since FY2022 in terms of their contribution to encouraging the sustainable growth of investee companies and reducing credit risks.
- At this stage, it is hard to say that evaluation methods for individual engagement concerning asset managers for fixed income have been established. Therefore, their stewardship activities will be evaluated in the item of “organization and human resources,” by assessing the status of establishment of organizations and human resources for stewardship activities, including policies and systems such as stewardship policies and the management of conflicts of interest. The same policy will apply in FY2024.
- Specifically, GPIF assesses the status of organizations and human resources regarding the implementation of stewardship activities by external asset managers, while confirming the following points.
  - ✓ **Framework (organizations, management of conflicts of interest)**
  - ✓ **Endorsement status of Japan’s Stewardship Code and the Principles for Responsible Investment (PRI)**
  - ✓ **Policy for Stewardship Activities**
  - ✓ **Response to GPIF’s Stewardship Principles (applicable items), etc.**

## <Assessment of stewardship activities by alternative managers>

- Alternative assets (infrastructure, real estate, private equity) represent an asset class in which asset managers may have an impact directly on ESG activities of investee companies. As a result, mainly global investors focusing on ESG have been increasing when selecting investment managers. At GPIF, stewardship responsibilities and the initiatives for ESG have been critical items for evaluation since starting the call for investment managers to apply in April 2017. Since 2023, GPIF has invested in limited partnerships, and the critical assessment items for selection include their stewardship responsibilities and ESG activities.
- After selecting investment managers, GPIF asks them to submit an ESG Report on a regular basis, based on which GPIF evaluates their initiatives for stewardship responsibilities in the comprehensive assessment. As the fund of funds type investment has been currently adopted, we exchange opinions concerning how the gatekeepers and fund of funds managers implement stewardship activities.



- ✓ **Framework (organizations, management of conflicts of interest, etc.)**
  - ✓ **Endorsement status of the Principles for Responsible Investment (PRI)**
  - ✓ **Stewardship activities including ESG (policy, status, implementation of engagement, and response to ESG issues according to the characteristics of the assets)**
- In March 2020, as a real estate investor member, GPIF joined GRESB,\* an initiative providing a benchmark for environmental, social, and governance (ESG) in real estate and infrastructure investments. In August 2022, GPIF joined GRESB as Japan's first infrastructure investor member. In the assessment of external asset managers, GPIF also confirms the status of their use of data provided by GRESB.
  - When choosing an investment destination, both gatekeepers and fund of funds managers confirm ESG activities of investee. After appointment, they conduct engagement with investees, including encouragement of the establishment of ESG policies.

\*Outline of GRESB:

GRESB is an initiative established in 2009 mainly by European pension funds and provides ESG benchmarks for real estate and infrastructure investments. GRESB assesses the initiatives and achievements with ESG investments by real estate companies, real estate funds, infrastructure business operators and infrastructure funds on an annual basis. According to the most recent annual assessment, more than 2,000 real estate companies and real estate funds, and more than 800 infrastructure business operators and infrastructure funds participated, and the amount of the subject real assets reached approximately 8.8 trillion U.S. dollars. More than 150 institutional investors use the assessment results to select investee companies to conduct monitoring and engagement as investor members.

GRESB® and the related logo are trademarks owned by GRESB BV and are used with permission.



## 7. Engagement with Index Providers

- In passive investment, an important factor of success is benchmark selection, rather than the investment skill. However, asset owners, including GPIF, have not exerted much effort in selecting ideal benchmarks. With that in mind, GPIF partially introduced the Index Posting System in FY2019 with the aim of effectively gathering information on various indices in order to enhance its overall fund management.
- GPIF has implemented due diligence and engagement, as it has gradually acknowledged the significance of the assessment of index providers' organizational structure as well as governance system when selecting benchmarks, such as an ESG index. Specifically, GPIF strictly examines the relationships between stakeholders (shareholders and major customers) and ESG rating agencies/index providers, their decision-making processes (whether they have independent committees, what they discussed), and whether they engage in any forms of business that are likely to fall under conflicts of interest, such as consulting services for companies. GPIF believes that index providers should be responsible for establishing solid governance systems and implementing investor-oriented decision-making, since their presence is gradually increasing.
- Since April 2022, the Technical Committee for ESG Evaluation and Data Providers, which was established under the FSA, has discussed the current status concerning ESG rating and data, the challenges of the relevant parties to provide and use ESG rating and data appropriately, future prospects, and a wide scope of other items. At the 15th Expert Panel on Sustainable Finance held in December 2022, the Code of Conduct for ESG Evaluation and Data Providers was reported and then published. The FSA urged ESG rating agencies and data providers to accept the Code of Conduct, and called on them to announce on their own websites and inform the FSA that they accepted it if they decided to do so. In July 2023, the FSA published the first list of the ESG evaluation and data providers that notified the FSA of their intention to endorse the Code of Conduct for ESG Evaluation and Data Providers. As of December 2023, the number of such organizations that declared their endorsement was 21.
- Furthermore, GPIF, as an asset owner, has proactively participated and provided opinions in the consultation meetings held by index providers and ESG rating agencies when they consider changing index methodologies and ESG assessment methodologies. GPIF encourages external asset managers to give similar attention.
- GPIF has been reviewing its contract style with index providers while enhancing its commitment to indexes. We believe that the alignment with not only index providers but also passive managers would be strengthened if the index license fee is directly borne by GPIF.



## 8. Initiatives for Promoting Dialogue between Asset Managers and Investee Companies

### <Survey of TOPIX component companies>

- GPIF conducted its first survey of JPX-Nikkei Index 400 companies in January 2016 with the aim of assessing the stewardship activities of external asset managers and understanding the actual status of purposeful dialogue (engagement). Since the third survey in 2018, we expanded the subjects to companies listed on the TSE's first section in order to obtain direct feedback from a wide range of companies. Due to changes in the TSE's market segments, the subjects were changed to the constituents of TOPIX from the eighth survey conducted in January 2023.
- The survey examined 1) evaluations concerning the stewardship activities of GPIF's asset managers, 2) the actual status of purposeful dialogue (engagement), 3) changes in the past year, 4) IR and ESG activities of investee companies, and 5) GPIF's initiatives.
- In the eighth survey conducted in January 2023, 735 companies responded, which accounted for 34.0% of the subject 2,162 constituents of TOPIX.
- During the past year, we have observed great progress in the number of companies endorsing the TCFD recommendations and their progress with disclosure. It was also confirmed that dialogues between those companies and institutional investors has advanced significantly.
- We can see the progress of the disclosure and its utilization that is indispensable for promoting the understanding between investors and companies as well as for conducting efficient dialogues. As a result, we can assure the expanding of the "engagement" for the improvement of corporate value that is the common purpose of companies and investors, in a variety of aspects.
  - Expansion of the scope of persons who handle engagement: Non-executive directors and outside statutory auditors (NEDs)
  - Expansion of engagement methodology: Collaborative engagement
  - Expansion of engagement themes: TCFD-based disclosure
- The result of the survey is available here: [https://www.gpif.go.jp/en/investment/report\\_of\\_the\\_8th\\_survey.html](https://www.gpif.go.jp/en/investment/report_of_the_8th_survey.html)



## <Excellent Integrated Reports and Most-improved Integrated Reports selected by GPIF’s asset managers entrusted with domestic equity investment>

- GPIF considers integrated reports to be important tools for constructive dialogue that improves corporate value, and believes they are instrumental for interactive engagement between external asset managers and investee companies.
- Therefore, since 2016, GPIF has asked external asset managers for domestic equities to nominate companies that have published excellent integrated reports, with the aim of encouraging companies to start publishing or enhancing integrated reports, as well as encouraging investors to utilize them. For the eighth year, GPIF requested asset managers to nominate up to 10 excellent integrated reports and 10 most-improved integrated reports in December 2023. GPIF compiled the results and announced them in February 21, 2024.
- This time, we also asked external asset managers to respond to questions about their approach to selection, their perspectives and key points in their evaluation, regarding which we had received many inquiries from companies in the past. We also asked if, as a result of sustainability disclosure in securities reports having become more substantial, asset managers require any changes in the content of disclosure, as well as inquiring about the expectations and significance of integrated reports. (For details, see the following: [https://www.gpif.go.jp/en/investment/excellent.most-improved-integrated-reports\\_2024\\_03.pdf](https://www.gpif.go.jp/en/investment/excellent.most-improved-integrated-reports_2024_03.pdf))
- We received positive feedback from companies, such as “The management began to pay more attention to integrated reports,” “We found more active collaboration among the involved staff members and departments,” “There is increased awareness of integrated reports within the company,” and “This will help us to prepare our next integrated report.” There were many cases in which companies announced on their website that they were selected for excellent or most improved integrated reports. Backed by the heightened awareness from the business side, we will continue this initiative as a tool to make dialogues between investee companies and asset managers more useful.

### ○Excellent Integrated Reports

GPIF’s asset managers for domestic equities named a total of 70 companies for their excellent integrated reports. The following companies were nominated by four or more respondents as publishers of excellent integrated reports.

◇ ITOCHU Corporation	6 asset managers	◇ Sojitz Corporation	4 asset managers
◇ Asahi Group Holdings, Ltd.	5 asset managers	◇ Mitsubishi UFJ Financial Group, Inc.	4 asset managers
◇ Hitachi, Ltd.	5 asset managers		

### ○Most-improved Integrated Reports

GPIF’s asset managers entrusted with domestic equity investment named a total of 100 companies for the most-improved integrated reports. There were no reports that were nominated by four or more respondents as publishers of the most-improved integrated reports.

## <Excellent TCFD Disclosure selected by GPIF's asset managers entrusted with equity investment>

- The Corporate Governance Code was revised in June 2021 and stipulates that companies listed on the Prime Market “should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.”
- Examples of companies that have provided TCFD disclosure ahead of others can be useful for other companies that intend to implement TCFD disclosure in the future. TCFD is a framework of disclosure shared worldwide, and we believe that referring to examples of companies outside Japan will be also useful. Therefore, continuing on from last year, we asked our external asset managers entrusted with domestic and foreign equities to select companies that provided excellent TCFD disclosure.
- GPIF asked external asset managers entrusted with equity investment to nominate up to five companies that provided excellent TCFD disclosure, and also to each nominate up to three companies that provided excellent disclosure of the four disclosure items (governance, strategy, risk management, and metrics and targets). GPIF compiled the results and announced them in March 2024.
- TCFD is a topic of discussion for international disclosure standards, and its significance is expected to further increase going forward. Since TCFD disclosure will likely become indispensable for global companies in the future, GPIF will continue to announce excellent TCFD disclosure.

### ○ Excellent TCFD Disclosure (Japanese companies)

GPIF's asset managers entrusted with domestic equities named a total of 29 companies for excellent TCFD disclosure. The following companies were highly evaluated by four or more respondents as publishers of excellent TCFD disclosure.

- ◇ Hitachi, Ltd.: 8 asset managers
- ◇ Mitsubishi UFJ Financial Group, Inc.: 5 asset managers
- ◇ Mitsui O.S.K. Lines, Ltd.: 4 asset managers
- ◇ Kirin Holdings Company, Limited: 6 asset managers
- ◇ ITOCHU Corporation: 4 asset managers

Note: Please visit the website for details, including the comments of the asset managers. [https://www.gpif.go.jp/en/investment/202405\\_excellent\\_TCFD\\_disclosure\\_en.pdf](https://www.gpif.go.jp/en/investment/202405_excellent_TCFD_disclosure_en.pdf)

### ○ Excellent TCFD Disclosure (Overseas companies)

GPIF's asset managers entrusted with foreign equities named a total of 75 companies for excellent TCFD disclosure. The following companies were highly evaluated by four or more respondents as publishers of excellent TCFD disclosure.

- ◇ Microsoft Corporation: 6 asset managers.
- ◇ Enel Spa: 5 asset managers

Note: Please visit the website for details, including the comments of the asset managers. [https://www.gpif.go.jp/en/investment/202403\\_excellent\\_TCFD\\_disclosure\\_en.pdf](https://www.gpif.go.jp/en/investment/202403_excellent_TCFD_disclosure_en.pdf)

## **9. Enhancing Collaboration with Relevant Organizations**

### **<Collaboration with Global Asset Owners: Global Asset Owners' Forum>**



- This forum was established by GPIF with co-organizers CalPERS and CalSTRS for continuous exchange of opinions to further fulfill our stewardship responsibilities with the aim of utilizing mutual knowledge with foreign public pension funds and others. The first conference was held in Tokyo in November 2016.
- Members (except for co-organizers) include the Florida State Board of Administration and the Regents of University of California of the United States; bclMC and OTPP of Canada; NBIM, APG, PGGM, AP2, ERAFP, and USS of Europe; GIC of Singapore; HESTA of Australia; and the World Bank.
- After suspension of the Forum due to the COVID-19 pandemic, the Global Asset Owners' Forum was re-held in 2023 for the first time in four and a half years. Global Asset Owners' Forum members had a meeting with the Keidanren and its corporate members during the “Japan Weeks,” in which the annual general meeting of PRI was held in Tokyo. At the meeting, we exchanged views on corporate governance, sustainability issues such as climate change, and the exercise of voting rights.
- Separately from the above-mentioned meeting with Keidanren, the asset owners also exchanged views on disclosures and other issues. The members of the Forum discussed various topics including expectations for Japanese companies such as timely disclosures and timely English translations, support for the ISSB standard, and support for the TSE's request on cost of capital, etc., and these opinions were summarized and published on January 11, 2024.

[https://www.gpif.go.jp/en/investment/summary\\_6th\\_Global\\_Asset\\_Owners\\_Forum\\_en.pdf](https://www.gpif.go.jp/en/investment/summary_6th_Global_Asset_Owners_Forum_en.pdf)

### **<Cooperation with Keidanren>**

September 2023: Attended the Meeting with GPIF

October 2023: Co-hosted the Meeting with the Global Asset Owners' Forum Members

### **<Presentations at various seminars and international conferences (since last reported)>**

June 2023: Global Corporate Governance Colloquium 2023

October 2023: Japan Weeks – GGX × TCFD Summit 2023, ICGN Company & Investor Engagement Forum

October 2023: ICMA & JSDA Annual Sustainable Bond Conference

December 2023: JICPA Conference 2023 – Toward the Creation of Sustainable Corporate Value



## **Chapter 2. Initiatives and Challenges of External Asset Managers**

## 1. GPIF's View on the Current Status of External Asset Managers

### <Organization, systems, policies, etc., in stewardship activities>

- The overall quality has been improved in both the activities and the speed at which they are conducted by each asset manager. Most external asset managers, both for passive and active investment, have developed policies for engagement and ESG. Their corporate principles, philosophy and process are applied into each policy and initiative, and developed into ongoing efforts as a corporate body, which are reviewed on a regular basis. For domestic equities, asset managers' stewardship activities have evolved as seen in the responses to listed companies to "the Action to Implement Management That Is Conscious of Cost of Capital and Stock Price," which was issued by the TSE.
- In stewardship reports, some asset managers established and disclosed their stewardship activities plans from medium- to long-term perspectives, including specific priorities and other prospective activities for several years ahead, while others demonstrated their best practices for governance from the perspective of investors.
- In the past few years, some passive and also active managers have established and enhanced a dedicated department in charge of stewardship activities, thereby full-fledged and full-year stewardship activities and organizational efforts have been further established. On the other hand, from the perspectives of cooperation with the investment section and sharing and use of expertise at the investment division, there are some cases of restructuring sections responsible for stewardship and ESG activities within the investment division.
- As mentioned above, while active managers implement engagement, their definitions of engagement and their actions vary depending on their organizational structures and investment styles. Some managers have a dedicated department in charge of stewardship activities, including engagement, while others do not. Particularly, in the former case, the collaboration between investment and stewardship activities has advanced. For the latter case, it is important to consider the fund manager's commitment and how it is resonated to the compensation system, as well as who takes the leadership in designing more organized activities, who and how to lead the coordination with external parties in collaborative initiatives.
- It has been observed that asset managers introducing in-house platforms and systems which unitarily manage global engagement have focused on the improvement of effectiveness of engagement, using a PDCA cycle through the management of milestones in which the progress of dialogues and companies' responses on the way to the achievement of goal are divided into several steps, after setting goals for each engagement.
- Some asset managers have established a clear escalation strategy in order to enhance the effectiveness of engagement.

- While various initiatives have been implemented, GPIF's Stewardship Principles and Proxy Voting Principles seem to have highly recognized to an extent among asset managers for equities. Going forward, we will conduct dialogues with newly selected asset managers for equity and fixed income as well.

## <Stewardship Activities in Equity Investment: Engagement>

- Some external asset managers send letters to investee companies as a tool to communicate their views or an opportunity to start dialogues with the management. Continuous monitoring is necessary to see how they develop engagement by using letters as the starting point.
- All asset managers for domestic and foreign equities answered that they have taken measures for ESG issues. Some managers implement dialogues concerning ESG in their engagement with small- and medium-sized companies.
- In establishing topics of engagement with an individual company, many external asset managers implement a cooperation system in which a person (or a division) in charge of stewardship (or ESG/sustainability) identifies issues in line with the ESG and sustainability topics and then, a person in charge of investment (or a division) identifies issues directly related to corporate value on a bottom-up basis. Also, in implementing engagement, various ideas have been devised to appoint a leader and a person in charge of engagement, depending on the topics.
- We believe that integrated reports and corporate governance reports are both primary tools for two-way communication in measures for ESG issues as well as engagement. While we recognize that asset managers have been moving forward with their use of those tools, we expect analysts and fund managers, in addition to specialists in stewardship and ESG, to make further use of these reports. Going forward, further expansion of non-financial disclosure will be expected, including sustainability disclosure for Securities Reports and the introduction of IFRS Sustainability Disclosure Standards (also known as ISSB Standards) as a global standard, in addition to integrated reports. It will be important to consider how such disclosure can be effectively utilized in asset management and engagement.
- Japanese asset managers participate in collaborative engagement such as CA100+ more proactively than foreign asset managers. As a whole, more and more asset managers join global initiatives, utilizing them as platforms to gain expertise and conduct joint engagement.
- While a growing number of asset managers, both in passive and active investment, have participated in collaborative initiatives according to necessity and topic, the status of use and the degrees of involvement vary among asset managers. In FY2023, new initiatives were established, as seen in the full-fledged start of Nature Action 100—which is related to natural capital—and the announcement of the establishment of PRI's Spring. On the other hand, there were some cases in which the form of involvement in joint engagement was changed. We will ask asset managers to confirm how they will actually get involved in the initiatives and their thinking toward joint engagement.



- Some managers including Japanese asset managers have been promoting reform measures of the entire investment chain through policy engagement, by submitting public comments to regulatory authorities and standard-setting bodies such as government agencies and ISSB, as well as proactively engaging with stock exchanges and index providers.

## <Stewardship Activities in Equity Investment: Exercise of Voting Rights>

- We positively assess asset managers, depending on the case, when they exercise their voting rights in a way that is not necessarily pursuant to voting policies but in line with their activities or actual situations as a result of engagement. Abstention from voting is also observed as a means of expressing their will. As we consider voting along with engagement, we expect them to take measures that will contribute to enhancing long-term corporate value. Some asset managers send strong messages in voting policies and utilize them for engagement, while others have introduced cross-shareholding systems, TSR, and PBR standards.
- In the results of exercising individual voting rights by asset managers for domestic equities, while there were differences in timing, frequency, and items of disclosure, many asset managers made quarterly disclosures so that the announced results would be of help in the dialogue after the general meeting of shareholders. Some cases seemed to be inappropriate for dialogues with companies in next year's general meeting of shareholders. Meanwhile some active foreign asset managers provided direct feedback on voting results from the person in charge to their investee companies and sent documents to inform the results and reasons for opposing an investee company's proposal. On the other hand, the disclosure of voting guidelines and voting results by Japanese asset managers tends to be more thorough. Some asset managers for foreign equity published their approval or disapproval of the voting decision in advance as part of their engagement escalation strategy.
- In a case where they oppose an investee company's proposal, all of asset managers for domestic equities disclose the reasons for such decision. While responses to shareholder proposals vary, they disclose either the reasons for approval or disapproval, or reasons for both are disclosed. Some asset managers implement their own ideas by flagging investee companies such as business partners in the Group in which conflicts of interest are likely to take place, or by providing more detailed explanations than usual. Other asset managers disclose the reference on their stewardship and exercise of voting rights. Some external asset managers for foreign equities voluntarily disclose the results of the exercise of voting rights.
- When some asset managers for domestic equities ask their investees to increase independent external directors as well as diversity, they allow a grace period of nearly a year from the announcement of the change in voting policy before taking effect, during which they inform their investee companies of the change and implement engagement.
- Both asset managers for domestic and foreign equities use proxy advisory firms. The majority of them use these firms to collect information; outsource administrative services concerning the exercise of voting rights; and manage conflicts of interest in exercising voting rights for their own company, parent company, and the Group companies. Only a small number of cases used the

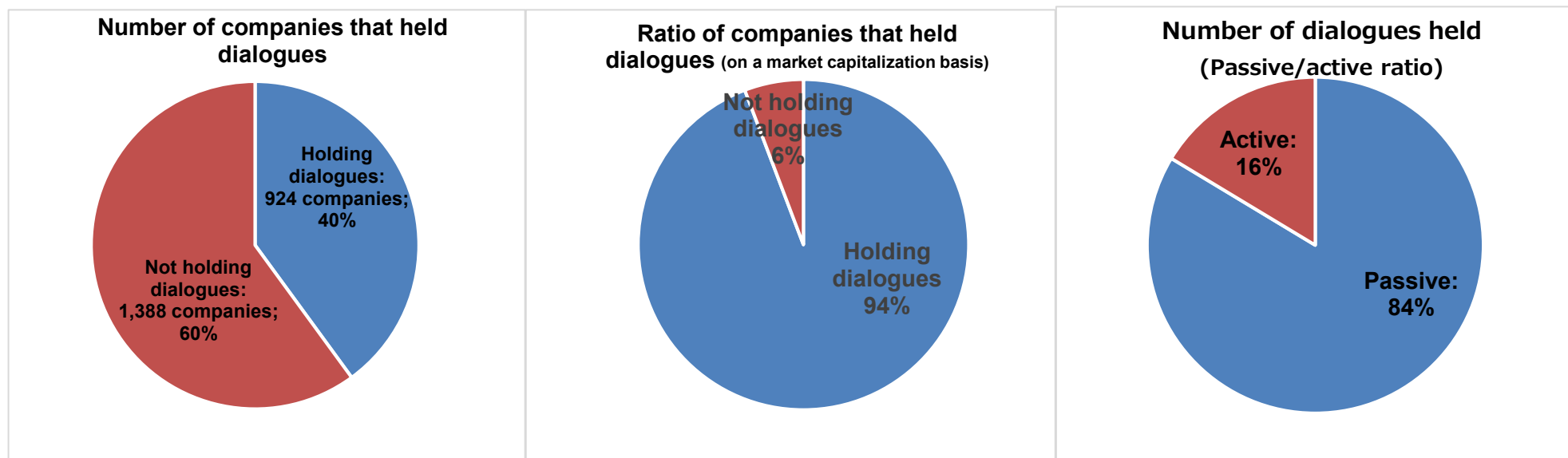
recommendations of advisory firms for the exercise of voting rights of the investees other than those requiring management of conflicts of interest. Even when using proxy advisory firms, for those subject to engagement activities, GPIF requires asset managers to make the final decisions by themselves, taking into account the status of engagement and the contents of proposals. GPIF uses the result of the recommendations provided by ISS and Glass Lewis for analysis after the General Meeting of Shareholders.

- Regarding voting instruction errors, administrative errors made by custodians, and unexercised votes, we have asked asset managers and custodians to take appropriate measures, considering the importance of exercising voting rights.

## <External Asset Managers' Governance Structures and Management of Conflicts of Interest with Their Parent Companies>

- The external asset managers' governance and management of conflicts of interest are formally well-organized in general. Going forward, continuous consideration, reviews and improvement as well as transparency should be improved to increase effectiveness.
- In the past few years, at Japanese asset managers for equities, organizational segregation aimed at preventing conflicts of interest between the asset management divisions and other divisions has been promoted, including by way of company split or integration of the asset management divisions. In a case where the divisions are split and organized as a separate company, various initiatives are quickly put into practice under the leadership of the upper management. At all Japanese asset managers, the formalistic aspect is well-organized with the appointment of outside directors and the establishment of a third-party committee consisting mainly of outside directors. Some asset managers have appointed senior executives and officers from outside of the company.
- Meanwhile, we observe that some foreign asset managers have no organizational segregation or no tangible scheme secured from outside to prevent conflicts of interest, which indicates that their superiority has no solid basis as expected. Some asset managers, however, seek to enhance management on the assumption that conflicts of interest would occur in a wide range of entities, including all discretionary investment customers and their parent companies.
- The compensation schemes for executives and employees of asset managers ultimately reflect their position within the Group, the relationship with a parent company, and their corporate culture. It suggests the importance of the compensation scheme and the incentive system.
- While it is confirmed that management of conflicts of interest in voting and voting guidelines are formally well organized, the definition of the companies subject to management of conflict of interest varies depending on the asset manager. Recently, given an increase in the number of shareholder proposals to both Japanese and foreign asset managers, their parent company, and group companies, there are some cases in which the current rules for decision processes for shareholder proposals are unable to function to the fullest. While some asset managers have already changed their decision processes, GPIF will continue to ask other asset managers to improve this area as a future task.

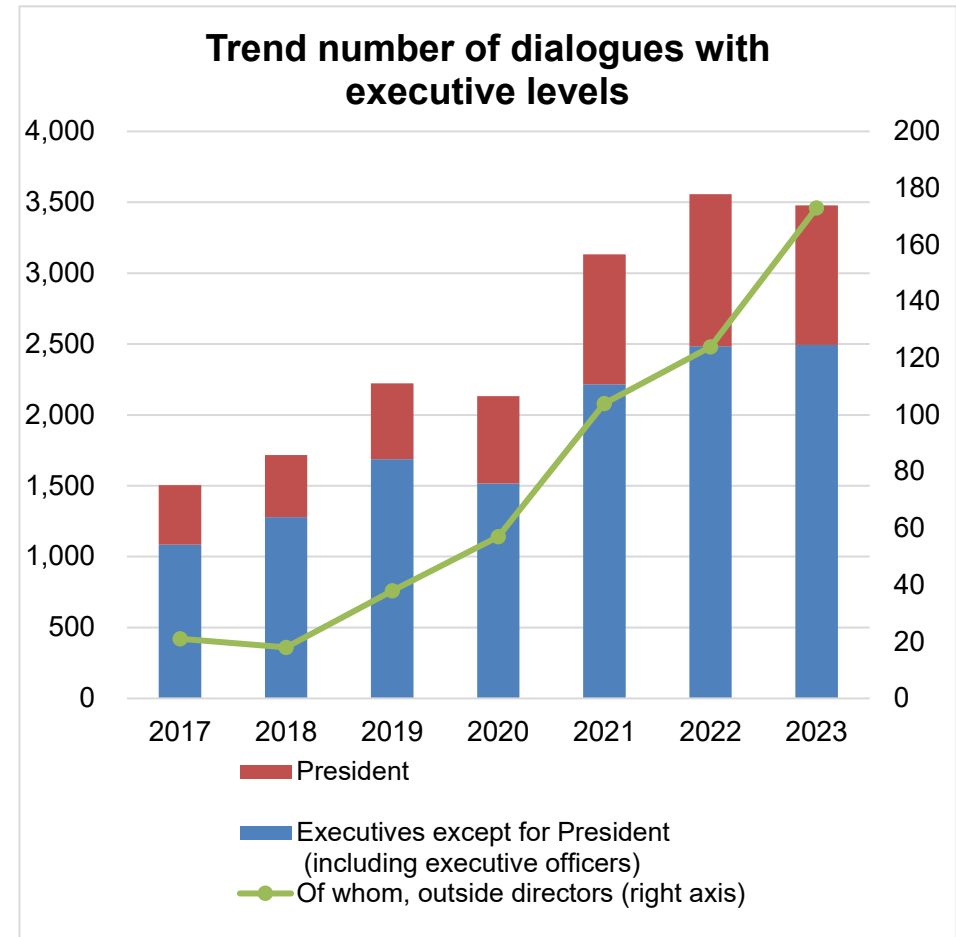
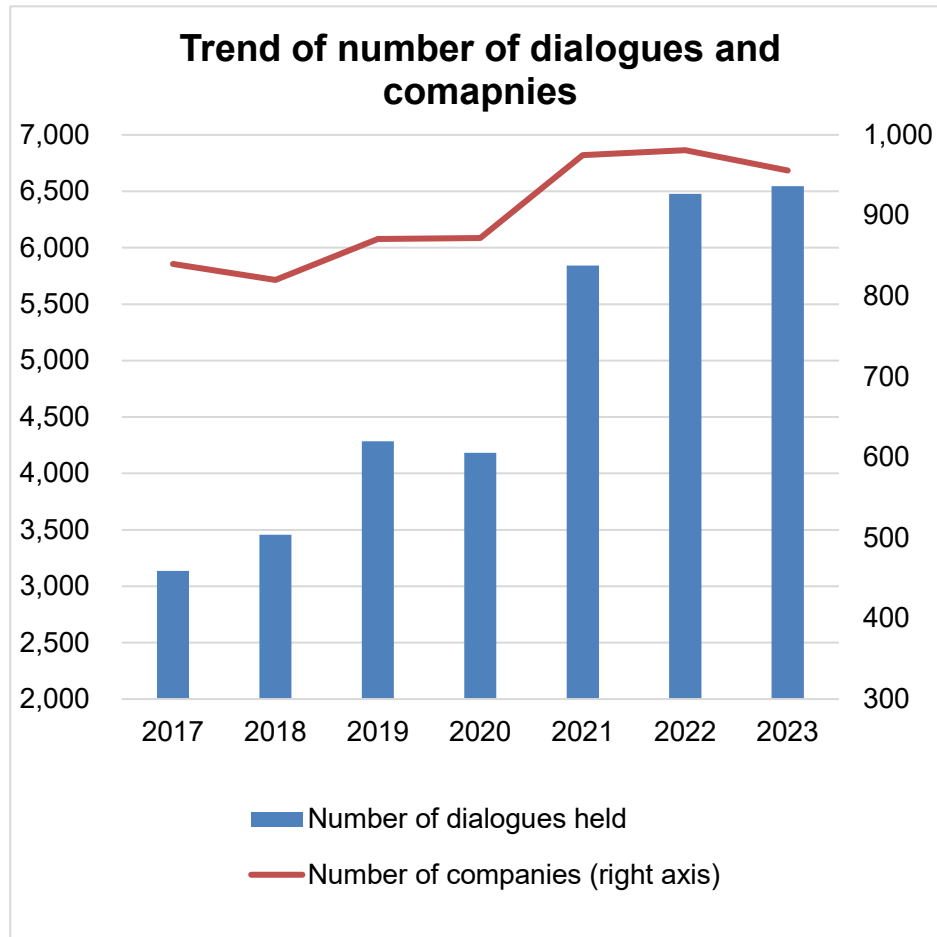
## 2. Status of Engagement by Domestic External Asset Managers Entrusted with Japanese Equities (January 2023 to December 2023)



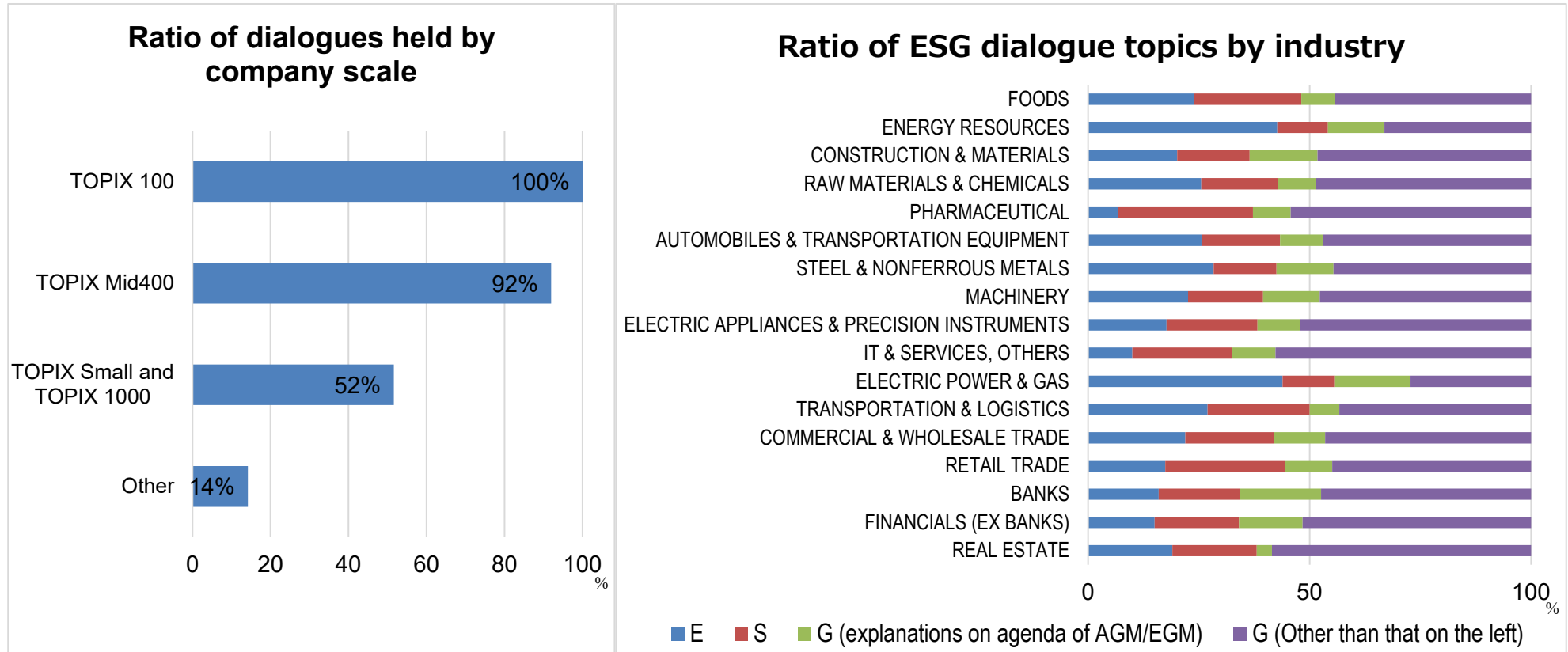
Note: The ratio of the number of companies with which dialogues were held was calculated with the number of domestic companies for which shares are held and market capitalization as of March 31, 2023, as a denominator.

The total number of companies with which engagement was conducted by GPIF's external asset managers for domestic equities from January 2023 to December 2023 was 924.

In terms of the number of companies, engagement was conducted with 40% of the companies whose shares are held. In terms of market capitalization, engagement was conducted with 94% of the companies. Each ratio remained the same as in the previous year. Furthermore, engagement by asset managers for passive investment accounted for 84%. When an asset manager is entrusted with both active and passive investments, the passive/active ratio is counted as the one with larger amount of mandate entrusted by GPIF.



The chart on the left represents the trend in the number of dialogues held from January to December every year in the past seven years. While a temporary drop in the number of dialogues was recorded in 2020, in which the COVID-19 pandemic first broke out, the number of engagements increased compared with the past years. The chart on the right represents the status of engagement conducted with executives. The number of dialogues held with outside directors in particular increased significantly during the past year. GPIF does not highly evaluate asset managers on the number of engagements only, in order to avoid an increase in perfunctory interviews. This chart is subject to fluctuations due to changes in asset managers.



Note: The company scales represent those as of March 31, 2023. J-REIT is excluded. Industries are based on the TOPIX-17 series.

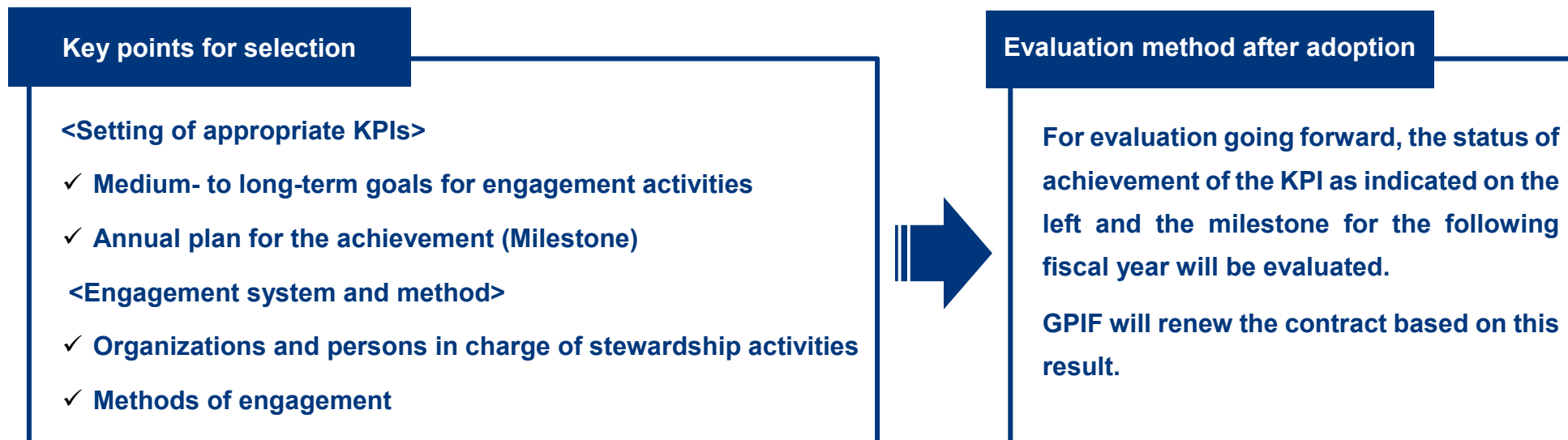
Left chart: Ratio of implementation of engagement by GPIF’s external asset managers for domestic equities from January 2023 to December 2023, by company scale. Engagement was implemented with 466 companies (93%) on a TOPIX 500 basis.

Right chart: In all industries, many dialogues were conducted on the topic of governance, in general. Governance (apart from the explanations on agenda of AGM/EGM) included a wide range of topics, such as cross-shareholding, capital efficiency and financial strategy. Meanwhile, it is also noticeable that the topics of ESG dialogue varied, depending on industries. It is observed that the topics of dialogues are set based on the materiality of each type of business. In the case of pharmaceuticals, the ratio of the S (social) area is higher than other types of business, and in energy resources and electric power & gas, many dialogues were set on the topic concerning the E (environmental) area.

### 3. Passive Investment Models Focusing on Stewardship Activities: Engagement-enhanced Passive

#### (1) Overview and points for selection of passive investment models focusing on stewardship activities

- Considering that GPIF invests in a wide range of listed companies by way of passive investment which accounts for approximately 90% of GPIF's equity investment, the long-term growth of the overall market is essential for the improvement of investment return. For passive investment, we believe that efforts for engagement activities are critical to encourage investee companies to achieve a long-term increase in corporate value and, in particular, to promote sustainable growth of entire markets.
- Therefore, with the aims of achieving sustainable growth of the overall market through stewardship activities, as well as diversifying and enhancing the approach methods of stewardship activities, GPIF started to adopt passive investment models focusing on stewardship activities in 2018.
- In selecting the model, we review the investment process, stewardship policies, and the business model, which integrates organizational systems and fee levels for execution of these process and policies.
- In 2018, we adopted two managers as engagement-enhanced passive managers: Asset Management One and FIL Investments (Japan). In FY2021, following new applications from several asset managers, we newly adopted Sumitomo Mitsui Trust Asset Management Co., Ltd., and Resona Asset Management Co., Ltd.



## (2) Progress at asset managers: (i) Asset Management One

### <Companies subject to engagement activities and management of milestones>

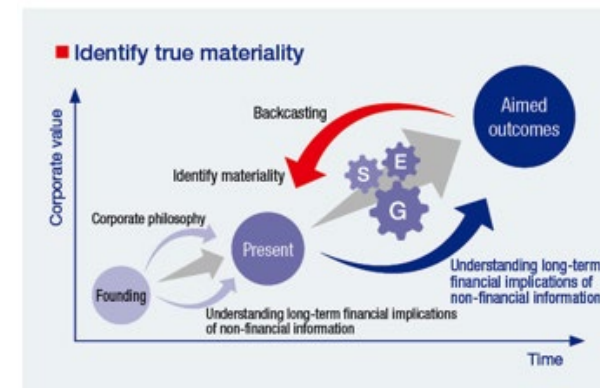
- The investee companies' issues with ESG were identified for the increase in sustainable corporate value and sustainable market growth, as the common issues in the market. Establish 18 ESG issues, and clarify the direction of engagement by showing the Issues (locating problems), Goals (outcomes to be realized) and Action (company's initiatives). Implement engagement based on each issue at target companies.
- In the approaches to ESG, there are mainly two perspectives of "Return" and "Risk." The "Risk Perspective" is fundamental, and more emphasis on the "Return Perspective". The improvement of corporate value is sought by enhancing the initiatives for ESG issues.
- Establish 8-level milestones, and periodically report to GPIF on the progress of engagement from the establishment of issues to their solutions.

#### 18 ESG Issues

Planet (Environment)	PI1	Climate change
	PI2	Biodiversity
	PI3	Water resources
	PI4	Circular economy
	PI5	Air, water and soil pollution
	PI6	Sustainable food system
People (Society)	Pe1	Diversity & Inclusion
	Pe2	Business and human rights
	Pe3	Health and wellbeing
Governance & Disclosure	GD1	Board governance & accountability
	GD2	Capital efficiency
	GD3	Takeover defense measures
	GD4	Risk management
	GD5	Sustainability management
	GD6	Supply chain management
	GD7	Business ethics
Our Community	OC1	Regional revitalisation
	OC2	Digital transformation

#### 8 Milestones

1. Identifying ESG issues: ESG analyst identifies and sets out key ESG issues relevant to the company
2. Raising concerns/suggestions: ESG analyst raises concerns or suggestions to the company
3. Issues recognized: The company recognizes the ESG issues raised by ESG analyst
4. Issues recognized (Senior management): The ESG issues recognized by senior management of the company
5. Initiatives taken: The company has taken initial steps to improve/tackle the issues
6. Plans formulated: The company has established a concrete plan for solving the issues
7. Plans implemented: The company has implemented the plan set out for solutions
8. Completing engagement: Effective actions and positive outcome assessed/confirmed by ESG analyst

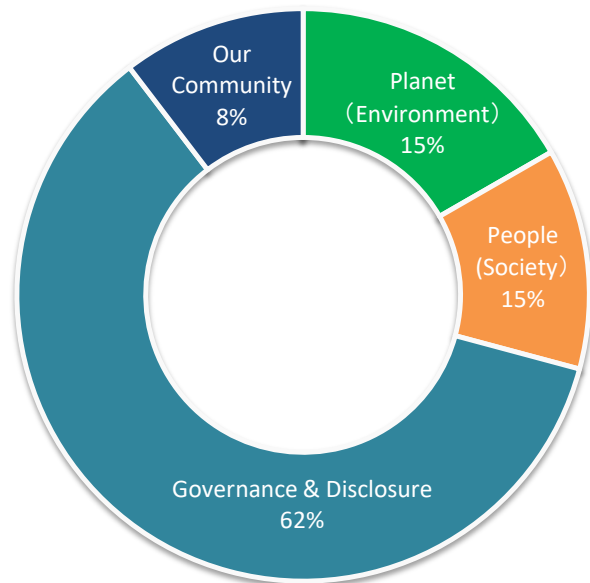




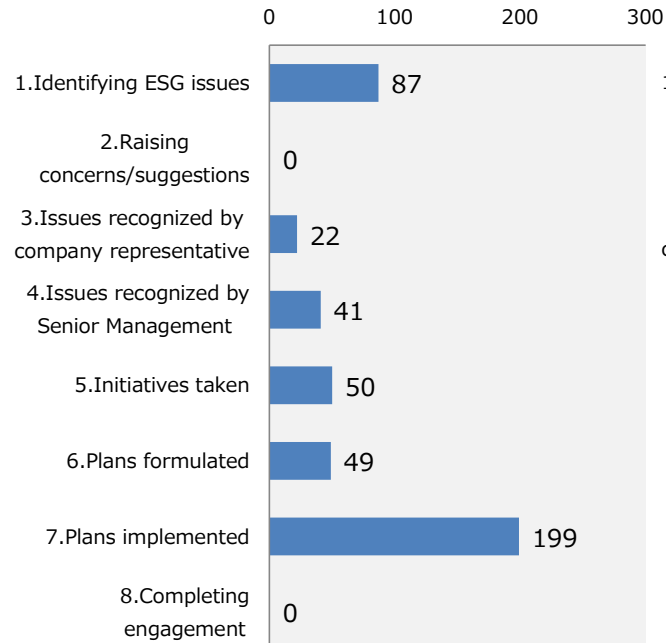
## <Progress>

- The number of issues subject to the management of milestones up to the third quarter of FY2023 was 448. The largest number among the ESG issues was in “Governance and Disclosure.” The topics of dialogues include the board of directors, corporate governance, sustainability management and capital efficiency. The percentage of “People (Society)” increased year on year, due to increases in issues of diversity, equity and inclusion.
- Up to the third quarter of FY2023, 68% of the engagement projects were observed to be on schedule or ahead of schedule in their progress. By milestone, “1. Identifying ESG issues” decreased significantly, whereas “8. Completing engagement”, increased.
- Up to the third quarter of FY2023, 72 projects were completed in climate change, sustainability management, digital transformation, and more.

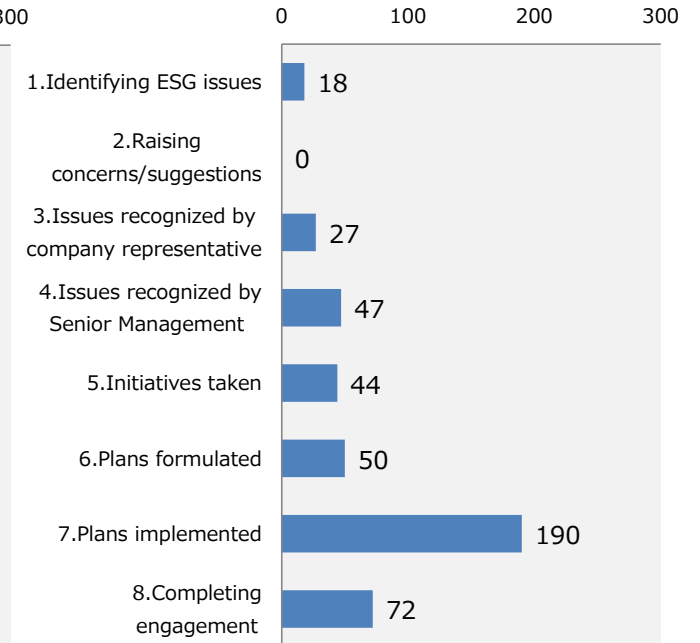
Composition of ESG issues for engagement



Milestones at the beginning of April 2023  
(including additions during the period)



Milestones at the end of December 2023

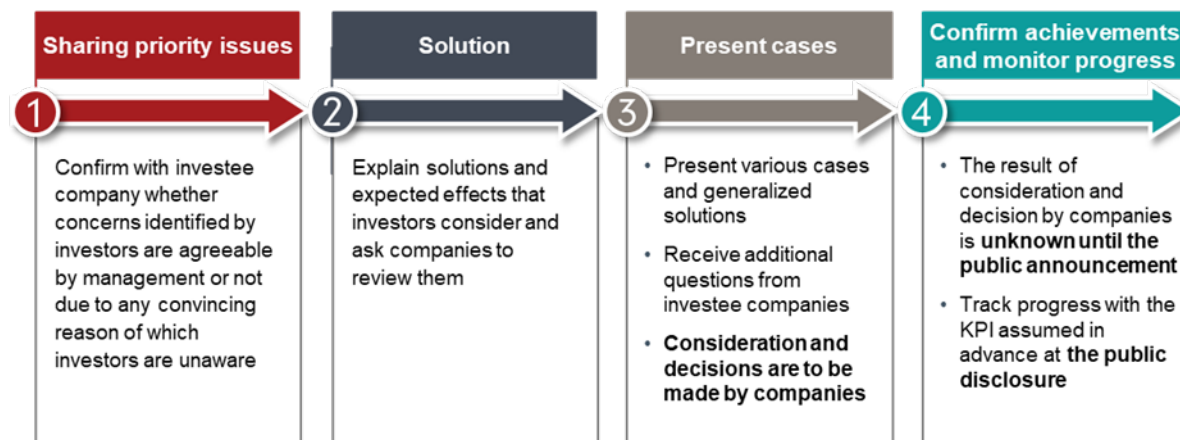


## (2) Progress at asset managers: (ii) FIL Investments (Japan)

### Companies subject to engagement activities and management of milestones

- With the expertise of analysts of active investment, efficiently increase  $\beta$  by encouraging large-cap companies to reform their mindset. In order to improve corporate value, identify the agenda of engagement and engage with companies, by which profitability and growth capability will be improved caused by strong competitiveness.
- Specifically, narrow the subject companies for engagement by such conditions as 1) market capitalization of one trillion yen or more, and 2) corporate value that is expected to improve by 50% or more, to implement engagement with large caps which are likely to have significant impacts on market capitalization.
- The progress is managed using three indicators of input, output and outcome\*, and is periodically reported to GPIF.
- FIL Investments (Japan) also verified the effects of engagement through an external organization from an academic standpoint.

#### Four Steps of Engagement



#### Engagement Counterpart



Source: Four Steps of Engagement and Engagement Counterpart from Fidelity's Report on Investment Trusts.

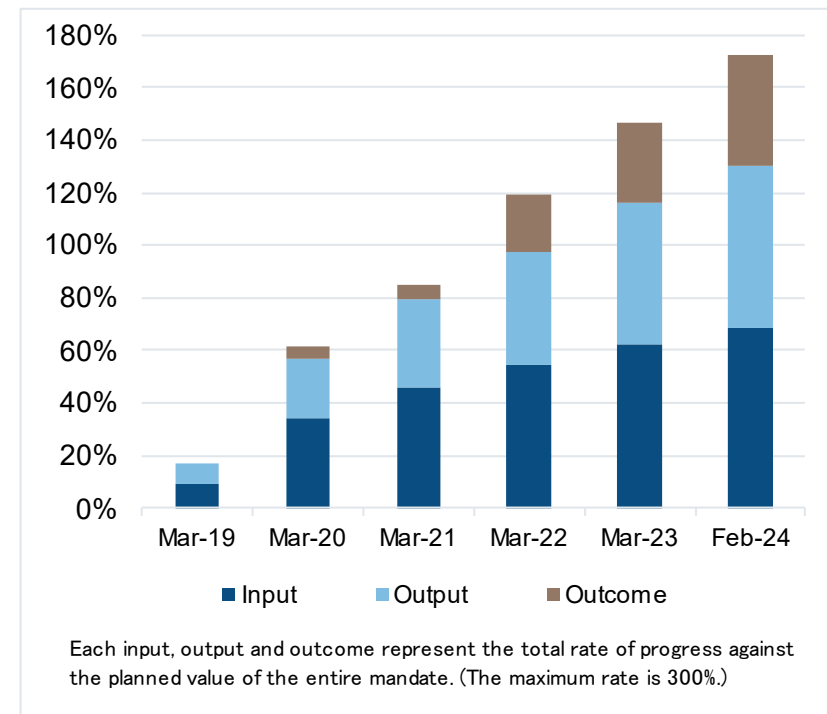
## <Progress>

- FIL Investments (Japan) established three indicators of input, output and outcome\* in order to manage the progress of the engagement activities in engagement-enhanced passive investment, granting points to each indicator according to the degrees of progress. While agenda and timeline vary depending on the subject company, the input indicator, which share the issues, advanced to almost 70% of the plan for all subject companies. Approximately 50% of those companies have nearly completed the input phase, which means that senior management of corporates and FIL Investments (Japan) shared the awareness of issues, entering a phase of waiting for companies' action.
- In the initiatives for the improvement of sustainability prospects, there are companies that can confirm the achievements at a relatively early stage in contrast to those that take time in changing business. Particularly in the latter case, effective engagement is sought by taking measures in close cooperation by the entire investment division.
- Some investee companies entered a phase of working toward the enhancement of profitability by autonomously reviewing business portfolios, significant improvement of PBR, and growth, making them no longer subject to active engagement activities. These companies are being replaced with other companies with problems and higher priorities, in order to improve the overall performance of the index by expanding the scope of those subject to engagement activities. Particular to the current fiscal year, it was pointed out that there is a growing number of new inputs through proactive dialogues with companies which were newly targeted for engagement. The accumulative progress is shown in the chart on the right.

\*Input: Sharing of awareness of issues based on evidence toward the improvement of corporate value, and requests for consideration concerning measures proposed by investors to solve such issues.

Output: Corporate activities, achievements

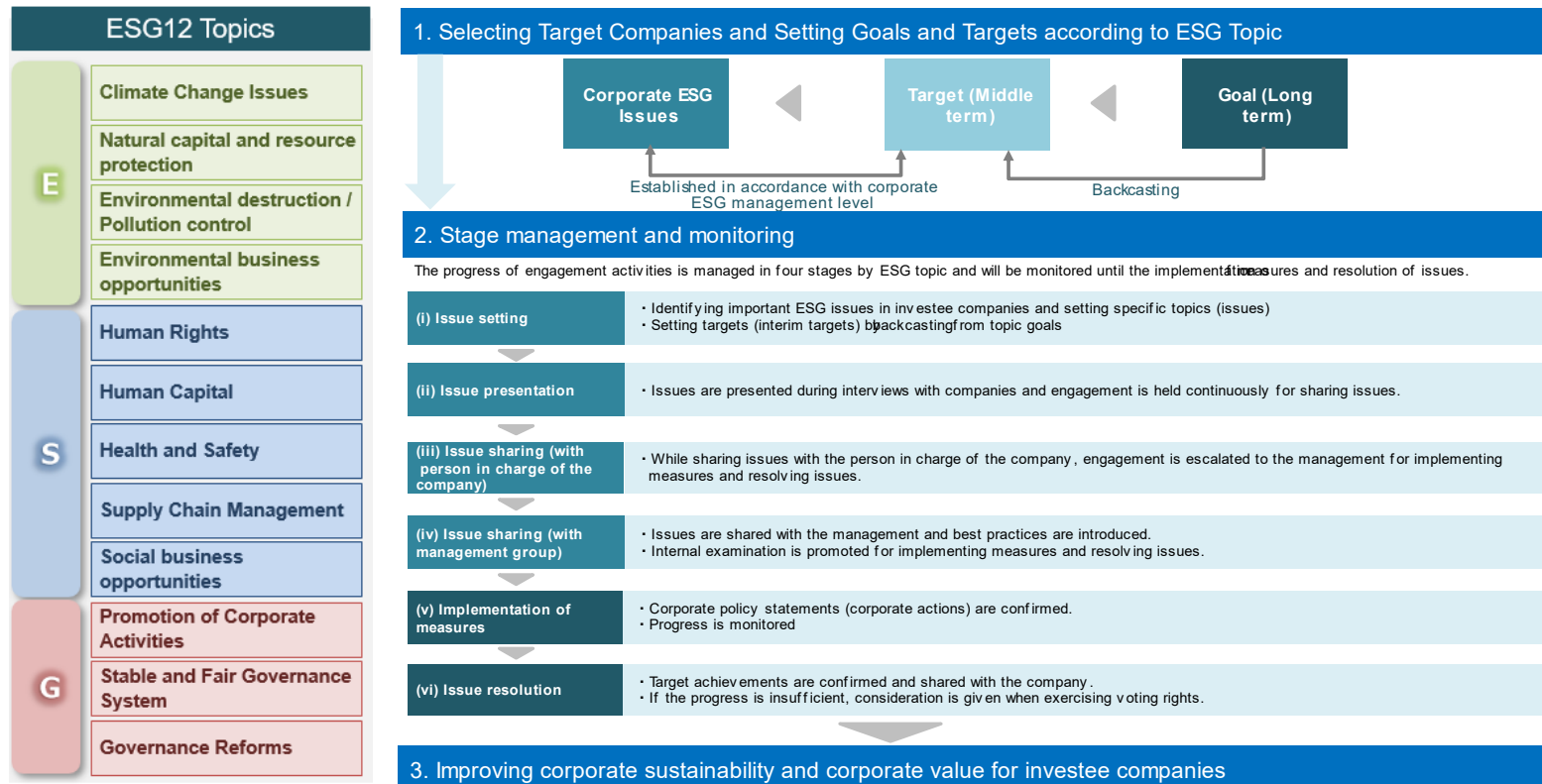
Outcome: Stock price performance, its components such as financial performance and the perception by the stock market (valuation, sell-side rating, etc.), and corporate activities strongly related to them.



## (2) Progress at asset managers: (iii) Sumitomo Mitsui Trust Asset Management

### <Companies subject to engagement activities and management of milestones>

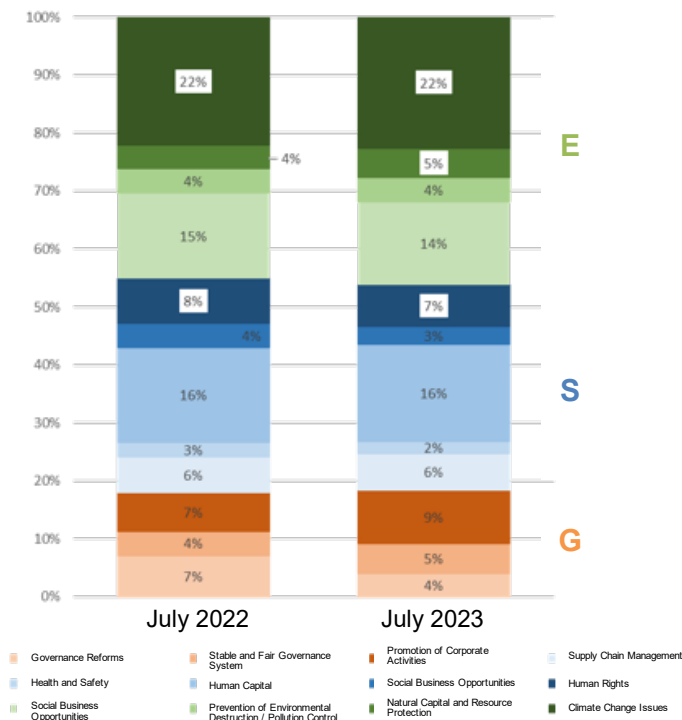
- In addition to engagement with investee companies, activities through various initiatives are carried out and engagement is implemented targeting a wide range of stakeholders, including market participants, in order to increase the probability of achieving such targets, thereby promoting solutions to companies' issues and increasing corporate value.
- Engagement is promoted through the commitment from the top management (the Chairperson and President) by themselves, such as messaging actively by speaking at overseas conferences and elsewhere. Issues which are set for the "ESG 12 topics" were selected based on ESG materiality are classified from the viewpoint of risks and opportunities. Targets (medium-term goals) for each investee company are set by backcasting from the goals (long-term goals) for a specific ESG topic, and engagement is implemented with the aim of achieving the targets.
- By setting milestones in six stages, the progress in engagement activities from issue setting to the resolution of issues is reported to GPIF periodically.



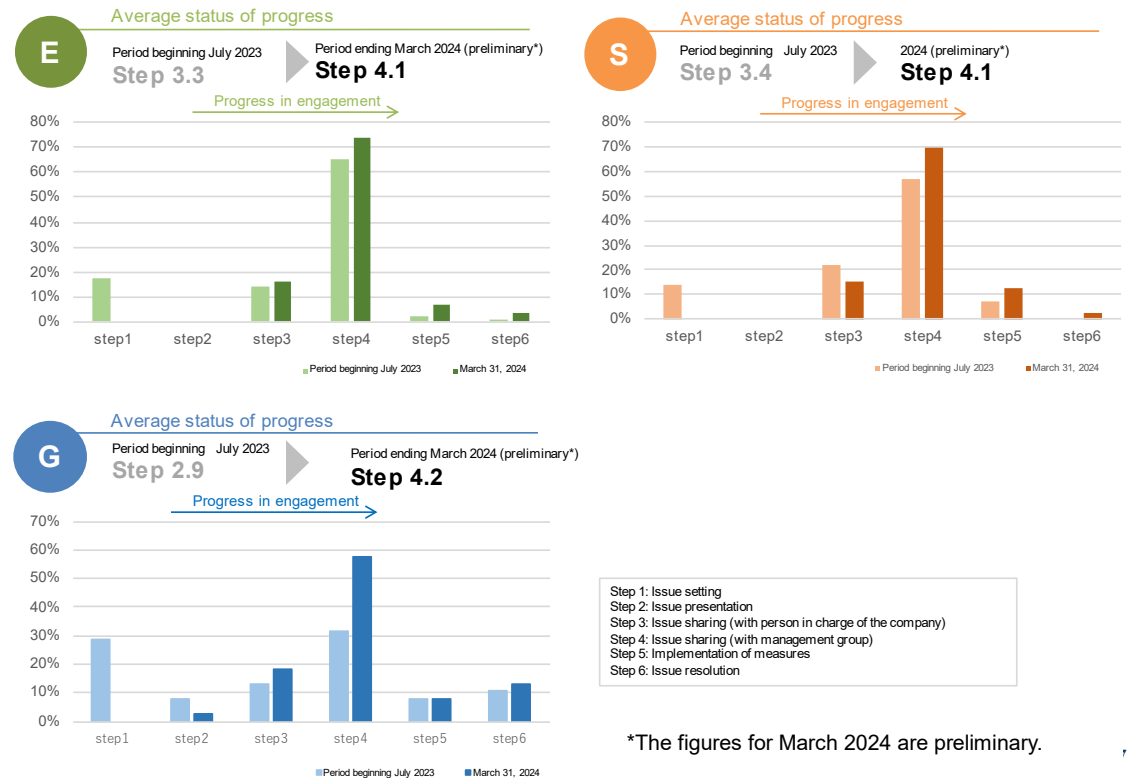
## <Progress>

- In FY2023, in the E (environmental) area, the establishment of topics increased in “Natural capital and resource protection” in preparation for TNFD-based disclosure. Companies depending on natural capital were urged to take measures to increase sustainable corporate value. In the G (governance) area, dialogues on the measures to improve companies’ PBR driven by reforms to the Tokyo Stock Exchange in addition to reducing cross-holding shares and promoting diversity management were strengthened. Dialogues were conducted with not only companies but also relevant organizations, including competent authorities.
- Many companies advanced to Step 4 (Sharing the awareness of issues with the management team) in all ESG topics. Regarding issues in S (social) and G (governance), there is an increase in companies that advanced to Step 5 (Implementation of measures) and Step 6 (Issue resolution). Companies’ changes have been observed in the S area, in which human rights policies were formulated and human rights due diligence advanced, and in the G area, in which mainly cross-shareholding was reduced and boards of directors were diversified.

Composition by top-down type engagement topic



Progress for FY2023 (July 2023 to March 2024)

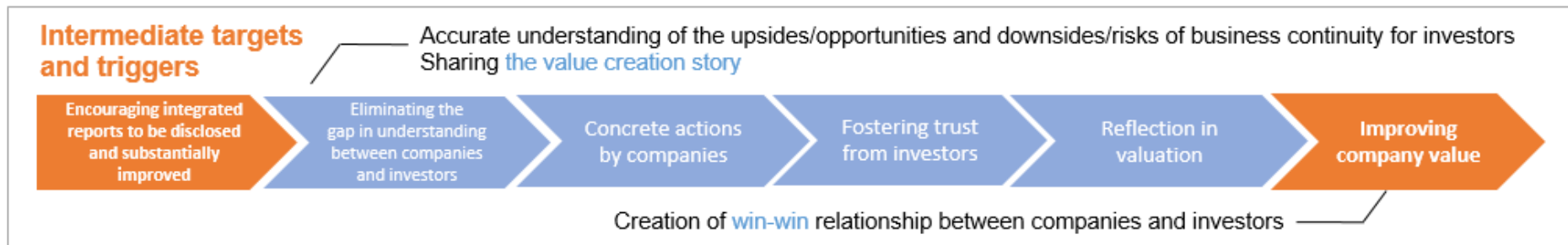


## (2) Progress at asset managers: (iv) Resona Asset Management

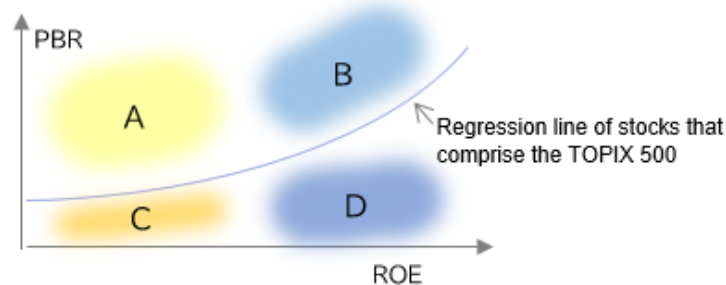
### <Companies subject to engagement activities and management of milestones>

- Engagement starts with an analysis of the current status of the integrated report. In the analysis of integrated reports using in-house AI technology, the focus points of integrated reports are set as evaluation items and scored in order to identify issues.
- Engagement managers provide feedback on AI evaluation scores and dialogue on the value creation story of the target company, and work to improve the corporate value by encouraging the disclosure of non-financial information (integrated reports) while setting qualitative improvement as interim targets and triggers.
- Milestones in improving corporate value are set for each target company, and the progress of engagement activities from issue setting to issue solving and changes to the above-mentioned AI assessment score over time are regularly reported to GPIF.

#### Path for improving company value



#### ■ ROE, PBR, and priority engagement themes



\* The above is an image graph.

Priority themes will be determined based on ROE and PBR positioning.

- A. Implement the value creation story
- B. Pursue best practices
- C. Reconstruct the value creation story
- D. Clarify the value creation story

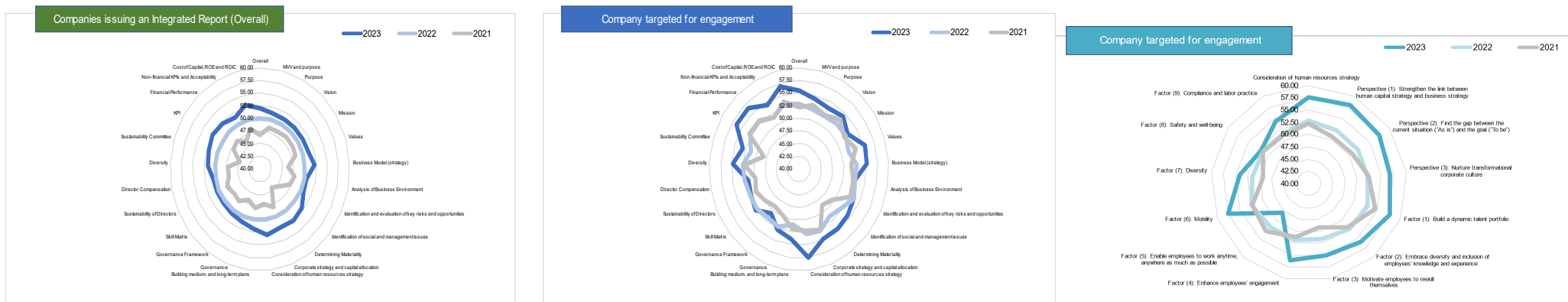
For example, during engagement with a company that has a relatively high PBR but a low ROE, we will focus on theme A.

## <Progress>

- Since FY2022, the scope of AI analysis has been expanded to include the Securities Report in addition to the Integrated Report, and thereby TCFD-based disclosure and human resources strategies have been quantified and scored. Since March 2023, companies have been selected whose corporate value might be significantly affected by the climate change issue and other companies from among the types of business which are highly important in terms of TCFD-based disclosure, and have also begun engagement related to TCFD.
- When engaging with a company, a document containing comments of the engagement manager attached to the quantified score was provided for an exchange of opinions.
- Regarding the integrated reports of companies targeted for engagement, the improvement (in quality) of the content has advanced as a whole (meaning that the average value of the subject companies' AI scores has risen), as shown in the charts below.

Integrated Report AI Score of the Company Subject to Engagement (Overall)

Integrated Report AI Score of the Company Subject to Engagement (Human resources strategy)



\* The calculation of AI score is outlined in the paper "Method of calculating the disclosure score of climate change risks in the Securities Report" presented at the 2021 (the 56th) winter session of the Japanese Association of Financial Econometrics and Engineering (JAFEE).

Notes 1. The average value of AI scores of integrated reports of companies subject to engagement were calculated for the subject accounting periods of FY2021 (April 2020 to March 2021), FY2022 (April 2021 to March 2022) and FY2023 (April 2022 to March 2023).

2. To facilitate the time series comparison of AI scores, the deviation values of AI scores for the period from 2021 to 2023 were calculated based on the AI score in 2022 (the average value of all integrated reports is 50).

3. The AI scores of integrated reports calculated by Resona Asset Management based on the text information of corporate websites and EDINET. The AI scores of integrated reports as of January 2024 taken from 2021 to 2023 are averaged by item and graphed.



## 4. Critical ESG Issues

The percentage shown in the chart represents the ratio of the number of managers which selected each ESG issue as a critical ESG issue, with the number of asset managers entrusted with each mandate as a denominator. The number of asset managers subject to the survey was as follows:

Domestic equities: 13

Foreign equities: 28

Domestic fixed-income: 14

Foreign fixed-income: 9

- When an asset manager is entrusted with both active and passive investments, the passive/active ratio is counted as the one with larger amount of mandate entrusted by GPIF.

- GPIF also confirmed critical ESG issues considered from the viewpoint of corporate bond investors.

ESG Issues	Domestic Equity Passive	Domestic Equity Active	Foreign Equity Passive	Foreign Equity Active	Domestic Fixed-income	Foreign Fixed-income
Climate Change	100%	100%	100%	92%	93%	78%
Deforestation	83%	29%	75%	33%	36%	33%
Water Stress, Water Security	83%	43%	75%	42%	43%	44%
Biodiversity	100%	71%	50%	54%	71%	33%
Pollution & Resources	50%	43%	50%	29%	29%	56%
Waste Management	67%	71%	50%	25%	36%	56%
Environmental Opportunities	67%	71%	50%	4%	50%	22%
Others (Environmental)	33%	29%	25%	17%	14%	33%
Human Rights & Community	100%	71%	75%	54%	86%	67%
Product Liability	67%	43%	25%	38%	43%	33%
Health & Safety	67%	57%	75%	33%	43%	44%
Labor Standards	67%	71%	50%	50%	57%	33%
Controversial Sourcing	33%	14%	25%	8%	7%	11%
Social Opportunities	50%	43%	50%	13%	21%	33%
Others (Social)	67%	43%	75%	46%	50%	33%
Board Structure, Self-evaluation	83%	100%	75%	54%	71%	33%
Risk Management	50%	57%	50%	21%	36%	33%
Capital Efficiency	83%	100%	50%	17%	29%	22%
Minority Shareholder Rights	83%	100%	50%	21%	29%	22%
Corporate Governance	83%	86%	75%	54%	79%	56%
Anti-corruption	67%	29%	25%	13%	21%	44%
Tax Transparency	33%	29%	50%	13%	14%	22%
Others (Governance)	50%	71%	75%	13%	21%	44%
Supply Chain	100%	71%	75%	33%	64%	56%
Diversity	100%	86%	100%	46%	79%	44%
Disclosure	100%	100%	100%	58%	93%	44%
Misconduct	100%	86%	50%	8%	57%	11%
Other	50%	14%	25%	33%	36%	44%

■ E (Environmental)
 ■ S (Social)
 ■ G (Governance)
 ■ A multiple themes of ESG

## 4. Critical ESG Issues (Trends in domestic equities for the past three years)

		Passive managers of domestic equities			Active managers of domestic equities		
		2023	2022	2021	2023	2022	2021
E (Environmental)	Climate Change	100%	100%	100%	100%	100%	88%
	Deforestation	83%	67%	67%	29%	29%	25%
	Water Stress, Water Security	83%	67%	67%	43%	43%	50%
	Biodiversity	100%	83%	83%	71%	57%	25%
	Pollution & Resources	50%	50%	50%	43%	57%	63%
	Waste Management	67%	67%	67%	71%	57%	75%
	Environmental Opportunities	67%	67%	67%	71%	57%	63%
	Others (Environmental)	33%	50%	50%	29%	29%	38%
S (Social)	Human Rights & Community	100%	100%	83%	71%	71%	75%
	Product Liability	67%	67%	67%	43%	43%	50%
	Health & Safety	67%	67%	67%	57%	57%	50%
	Labor Standards	67%	67%	50%	71%	71%	63%
	Controversial Sourcing	33%	33%	33%	14%	14%	13%
	Social Opportunities	50%	50%	50%	43%	43%	50%
	Others (Social)	67%	67%	67%	43%	43%	50%
G (Governance)	Board Structure, Self-evaluation	83%	83%	83%	100%	100%	100%
	Risk Management	50%	50%	50%	57%	43%	50%
	Capital Efficiency	83%	83%	83%	100%	100%	88%
	Minority Shareholder Rights	83%	83%	83%	100%	100%	100%
	Corporate Governance	83%	100%	100%	86%	71%	63%
	Anti-corruption	67%	67%	67%	29%	29%	25%
	Tax Transparency	33%	33%	17%	29%	29%	38%
	Others (Governance)	50%	50%	50%	71%	71%	63%
ESG Multiple Topics	Supply Chain	100%	100%	100%	71%	71%	88%
	Diversity	100%	100%	100%	86%	86%	75%
	Disclosure	100%	100%	100%	100%	100%	100%
	Misconduct	100%	100%	100%	86%	86%	75%
	Other	50%	50%	50%	14%	14%	50%



## **Chapter 3. Expectations & Challenges for External Asset Managers and GPIF's Action Plans Going Forward**

## Expectations and Challenges for External Asset Managers

**Integrate GPIF's Stewardship Principles and Proxy Voting Principles in their operations at all levels throughout their organizations**

### ■ Integration of investment and stewardship/ESG

- ✓ Collaborate between the investment section and the stewardship activities section
- ✓ Establish and enhance passive investment models focusing on stewardship activities
- ✓ Practice ESG integration tailored to different investment styles

### ■ Strengthening of engagement, including exercise of voting rights

- ✓ Implement engagement activities concerning new ESG issues that contribute to the enhancement of corporate value, taking into account environmental changes
- ✓ Engagement to achieve management that is conscious of cost of capital and stock price
- ✓ Promote engagement strategy in accordance with the scale and stages of investee companies
- ✓ Integrate ESG issues and engagement on proxy voting principles
- ✓ Stewardship responsibilities in fixed-income investment

### ■ Messages and disclosure for investee companies

- ✓ Implement stewardship activities in line with messages to investee companies (behavior consistent with words)
- ✓ Improve the quality of disclosure
  - Disclosure of voting principles and the result of exercise of voting rights
  - Disclosure in line with TCFD Recommendation
  - Disclosure of initiatives for critical ESG issues (materiality), and the policy and concepts of the company

## GPIF's Action Plans Going Forward

- **“Enhance engagement” with external asset managers, focusing on two-way communication**
  - ✓ Assessing the compliance status of GPIF's Stewardship Principles and Proxy Voting Principles
  - ✓ Confirming the governance systems of external asset managers
  - ✓ Conducting dialogues with each internal position, from the top management to persons in charge, according to the topic
  - ✓ Conducting dialogues with the third-party and other committees as required
  - ✓ Confirming new ESG issues that contribute to enhancing corporate value
  - ✓ Confirming the status of engagement to achieve management that is conscious of cost of capital and stock price
  - ✓ Cooperation between the investment team and stewardship team
  - ✓ Recognizing challenges related to companies targeted for engagement and sharing their evaluations among the investment team and stewardship team
- **Establish and enhance passive investment models focusing on stewardship activities**
- **Further examine the evaluation method of ESG integration**
- **Examine evaluation methods of stewardship activities in fixed-income investment**
- **Dialogues with issuers with the aim of understanding the actual status of engagement**
- **Measurement of achievement and effects of engagement, including ESG, in collaboration with external organizations (see next page)**

## GPIF's Action Plans Going Forward: Measurement of Effects of Stewardship Activities and ESG Investment

- GPIF believes that, regarding stewardship activities and ESG investment, the longer the investment horizon is, the higher the improvement of returns after risk adjustments can be expected.
- Meanwhile, given that data has been accumulated in the corresponding period of time that has passed since the beginning of each initiative, we will quantitatively measure effects as follows from FY2023 to FY2024 in collaboration with a consulting service provider that has expertise in statistical analysis, for the purpose of appropriately implementing Plan-Do-Check-Act (PDCA) cycles.
- As to 1. (1) Verification of the effects of engagement and 2. (1) Study of ESG factors which contribute to the improvement of corporate value and investment returns, both of which started in FY2023, the results will be announced upon completion of the analyses.

### ■ Outline of the measurement of effects

	Project theme	Specific content (example)	Quantitative analysis consulting service provider
1. Measurement of the effects of stewardship activities	(1) Verification of the effects of engagement	Research into the causation concerning the effects on the engagement and ESG ratings/ improvement of corporate value	UTokyo Economic Consulting Inc.
	(2) Verification of the exercise of voting rights by external asset managers	Change in the difference of exercise of voting rights in the stakeholder companies from other companies*	UTokyo Economic Consulting Inc.
2. Measurement of the effects of ESG investment	(1) Study of ESG factors which contribute to the improvement of corporate value and investment returns	Research into the causation between the ESG factors and the improvement of corporate value/ investment returns	EY Strategy and Consulting Co., Ltd.
	(2) Verification of the effects of passive investment of equities based on ESG indices	Analysis of the impact of ESG investment on corporate behavior*	UTokyo Economic Consulting Inc.

\*The specific analyses are subject to change depending on further discussions.



**Status of Exercise of  
Shareholders' Voting Rights  
(April 2023 to June 2023)**



## 1. Domestic Equities

(1) Exercise of voting rights by external asset managers: All external asset managers (26 funds) exercised their voting rights.

(2) Exercise of voting rights by type of proposal

(Total number of proposals)

Proposals	Proposals pertaining to company organization					Proposals pertaining to Director remuneration, etc.				Proposals pertaining to capital policy (excluding items pertaining to changes to the Articles of Incorporation)			Proposals pertaining to changes to the Articles of Incorporation	Poison pill (Rights plan)		Other Proposals	Total	
	Appointment of Directors	Of which Appointment of Outside Directors	Appointment of Statutory Auditors	Of which Appointment of Outside Statutory Auditors	Appointment of Accounting Auditors	Director Compensation	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, transfer of business, company split, etc.		Warning type	Trust type			
Total number of voting rights exercised	126,000	52,226	14,005	9,352	347	3,682	711	321	290	9,733	223	241	5,025	495	0	123	161,196	
Management proposals	Total	125,316	51,776	13,981	9,329	347	3,572	711	321	290	9,506	6	241	2,542	495	0	102	157,430
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	110,038	45,644	12,388	7,815	347	3,410	624	40	241	9,300	6	237	2,479	23	0	98	139,231
		(87.8%)	(88.2%)	(88.6%)	(83.8%)	(100.0%)	(95.5%)	(87.8%)	(12.5%)	(83.1%)	(97.8%)	(100.0%)	(98.3%)	(97.5%)	(4.6%)	(0.0%)	(96.1%)	(88.4%)
	Opposed	15,278	6,132	1,593	1,514	0	162	87	281	49	206	0	4	63	472	0	4	18,199
(12.2%)		(11.8%)	(11.4%)	(16.2%)	(0.0%)	(4.5%)	(12.2%)	(87.5%)	(16.9%)	(2.2%)	(0.0%)	(1.7%)	(2.5%)	(95.4%)	(0.0%)	(3.9%)	(11.6%)	
Shareholder proposals	Total	684	450	24	23	0	110	0	0	0	227	217	0	2,483	0	0	21	3,766
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	75	55	7	6	0	13	0	0	0	46	48	0	219	0	0	9	417
		(11.0%)	(12.2%)	(29.2%)	(26.1%)	(0.0%)	(11.8%)	(0.0%)	(0.0%)	(0.0%)	(20.3%)	(22.1%)	(0.0%)	(8.8%)	(0.0%)	(0.0%)	(42.9%)	(11.1%)
	Opposed	609	395	17	17	0	97	0	0	0	181	169	0	2,264	0	0	12	3,349
(89.0%)		(87.8%)	(70.8%)	(73.9%)	(0.0%)	(88.2%)	(0.0%)	(0.0%)	(0.0%)	(79.7%)	(77.9%)	(0.0%)	(91.2%)	(0.0%)	(0.0%)	(57.1%)	(88.9%)	

Note: Figures in parentheses represent percentages for each proposal. The total percentage may not add up to 100 due to rounding.

Note: There were no cases of non-exercise. There was one abstention.

Note: The resolutions of J-REIT general meetings of investors are included above.

## 2. Foreign Equities

(1) Exercise of voting rights by external asset managers: All external asset managers (54 funds) exercised their voting rights.

(In some cases, voting rights were not exercised in the subject countries for institutional reasons, etc.)

(2) Exercise of voting rights by type of proposal

(Total number of proposals)

Proposals	Proposals pertaining to company organization			Proposals pertaining to Director remuneration, etc.				Proposals pertaining to capital policy (excluding items pertaining to changes to the Articles of Incorporation)			Proposals pertaining to changes to the Articles of Incorporation	Warning type Poison pill	Other proposals		Total	
	Appointment of Directors	Appointment of Statutory Auditors	Appointment of Accounting Auditors	Director Compensation	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, transfer of business, company split, etc.			Approval of financial statements and statutory reports	Other proposals		
Total number of voting rights exercised	121,218	4,113	13,103	30,162	205	144	5,193	7,847	5,074	7,562	6,374	198	10,859	48,218	260,270	
Management proposals	Total	120,298	3,642	13,055	29,942	197	29	5,120	7,847	5,074	7,560	5,764	194	10,783	39,671	249,176
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	103,762	3,259	11,261	23,579	167	12	2,975	7,827	4,823	5,901	5,162	157	10,472	33,343	212,700
		(86.3%)	(89.5%)	(86.3%)	(78.7%)	(84.8%)	(41.4%)	(58.1%)	(99.7%)	(95.1%)	(78.1%)	(89.6%)	(80.9%)	(97.1%)	(84.0%)	(85.4%)
Opposed	16,536	383	1,794	6,363	30	17	2,145	20	251	1,659	602	37	311	6,328	36,476	
	(13.7%)	(10.5%)	(13.7%)	(21.3%)	(15.2%)	(58.6%)	(41.9%)	(0.3%)	(4.9%)	(21.9%)	(10.4%)	(19.1%)	(2.9%)	(16.0%)	(14.6%)	
Shareholder proposals	Total	920	471	48	220	8	115	73	0	0	2	610	4	76	8,547	11,094
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	634	378	41	52	4	0	0	0	0	2	133	1	12	2,964	4,221
		(68.9%)	(80.3%)	(85.4%)	(23.6%)	(50.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(21.8%)	(25.0%)	(15.8%)	(34.7%)	(38.0%)
Opposed	286	93	7	168	4	115	73	0	0	0	477	3	64	5,583	6,873	
	(31.1%)	(19.7%)	(14.6%)	(76.4%)	(50.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(78.2%)	(75.0%)	(84.2%)	(65.3%)	(62.0%)	

Note: Figures in parentheses represent percentages for each proposal. The total percentage may not add up to 100 due to rounding.

Note: The figures for "Opposed" include 1,945 abstentions.

### 3. Comparison of the number of exercises of voting rights by fiscal year (Period from April to June)

Note: Comparison of the number of opposition votes to management proposals, etc., and the number of approvals of shareholder proposals by fiscal year

		FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Domestic equity	Opposition to the management proposals or abstention from voting	17,674	22,074	18,044	16,191	12,911	14,266	13,408	12,491	15,061	22,250	22,821	17,022	16,429	18,199
		11.6%	13.3%	11.6%	11.5%	9.5%	8.4%	7.9%	8.5%	10.3%	11.1%	12.3%	10.4%	10.1%	11.6%
	Approval of shareholder proposals	47	34	58	34	56	55	65	167	129	215	319	154	262	417
		2.6%	1.9%	2.7%	2.3%	2.9%	2.8%	4.7%	7.8%	8.8%	12.0%	12.2%	8.9%	10.0%	11.1%
Foreign equity	Opposition to the management proposals or abstention from voting	7,293	6,087	5,422	7,161	7,269	10,778	11,162	13,076	17,061	17,510	17,734	28,385	36,042	36,476
		6.9%	5.3%	4.9%	6.0%	6.7%	7.5%	7.7%	8.7%	10.3%	12.4%	13.1%	15.9%	17.2%	14.6%
	Approval of shareholder proposals	2,085	1,486	1,655	1,503	1,483	2,650	2,630	3,295	2,849	2,504	2,008	2,772	3,526	4,221
		38.9%	32.9%	35.2%	32.0%	40.3%	47.4%	43.0%	50.5%	53.3%	52.7%	43.8%	53.9%	52.2%	38.0%



**Reference: GPIF's Principles**

# Investment Principles

March 26, 2015  
Revised: October 2, 2017  
Last revised: April 1, 2020

- [1] Our overarching goal is to contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective, to the sole benefit of pension recipients.
- [2] Our primary investment strategy is diversification by asset class, region, and timeframe. While market prices may fluctuate in the short term, GPIF will take full advantage of our long-term investment horizon to achieve investment returns in a more stable and efficient manner, while simultaneously ensuring sufficient liquidity to pay pension benefits.
- [3] We formulate our overall policy asset mix and manage risks at the portfolio, asset class, and investment manager level. We utilize both passive and active management in order to achieve benchmark returns (i.e., average market returns) and seek untapped profitable investment opportunities.
- [4] We believe that sustainable growth of investee companies and the capital market as a whole are vital in enhancing long-term investment returns. In order to secure such returns for pension beneficiaries, therefore, we promote the incorporation of non-financial environmental, social, and governance (ESG) factors into the investment process in addition to financial factors.
- [5] In order to enhance long-term investment returns and fulfill our stewardship responsibilities, we shall advance various initiatives (including the consideration of ESG factors) that promote long-termism and the sustainable growth of investee companies and the capital market as a whole.

## Stewardship Principles

Established on June 1, 2017  
Revised on February 6, 2020

Government Pension Investment Fund (GPIF) requires its external asset managers (“asset managers”) to comply with the following principles. If an asset manager decides not to comply with any of the principles due to the characteristics of the assets in which it invests and/or its investment style, it is required to explain the rationale for its non-compliance to GPIF.

In order to fulfill its own stewardship responsibilities, GPIF continuously monitors the stewardship activities of its asset managers, including their exercise of any voting rights, and proactively conducts dialogue (engagement) with them.

### **(1) Corporate Governance Structure of Asset Managers**

- Asset managers should adopt Japan’s Stewardship Code.
- Asset managers should have a strong corporate governance structure. In particular, asset managers should develop a supervisory system through such measures as appointing outside directors with a high degree of independence in order to enhance their independence and transparency.
- Asset managers should commit sufficient internal resources to fulfill their stewardship responsibilities effectively.
- Asset managers should explain how their remuneration and incentive systems for their executives and employees are aligned with the interests of GPIF.

### **(2) Management of Conflicts of Interest by Asset Managers**

- Asset managers should appropriately manage conflicts of interest (if the asset manager belongs to a corporate group, not only within asset manager but also within the group) in order to put the beneficiaries’ interests first. Asset managers should classify types of conflicts of interest into those related to financial/capital relationships and those related to business relationships. Asset managers should also develop and publicly disclose a policy for the management of conflicts of interest.
- Asset managers should manage conflicts of interest through measures such as establishing a third-party committee with a high degree of independence and disclosing information on such. When selecting committee members, asset managers should consider the candidates’ independence, experience and skill sets, among other factors.
- When exercising voting rights for companies with which they have a potential conflict of interest, such as their own company, their parent company or other group companies, asset managers should develop and disclose a process that removes arbitrariness and is in line with best practice in corporate governance and conflict of interest management, such as letting their third-party committee make voting decisions or examine the validity of their own decisions, or following the recommendations of a proxy voting advisor.

### **(3) Policy for Stewardship Activities, including Engagement**

- Asset managers should develop and publicly disclose a stewardship policy, which should include their approach to engagement.
- Asset managers should ensure that their stewardship policy and activities contribute to long-term risk-adjusted returns rather than short-term outcomes. In addition, to support more effective stewardship activities, asset managers should consider formulating engagement objectives and plans.

- Asset managers should integrate stewardship and investment.
- Asset managers should proactively engage with index providers to promote the interests of beneficiaries. Such engagements should include participating in index providers’ consultations regarding the constituent stocks of indices, as these have a material impact on GPIF’s investment performance.
- Asset managers should engage with various stakeholders including regulators, stock exchanges, investee companies and index vendors, so as to improve the sustainability of the markets in which they and GPIF invest.
- Asset managers should take non-financial information into consideration when engaging with investee companies. Non-financial information should include (but not be limited to) the information contained within companies’ corporate governance reports and integrated reporting.
- If a company should decide not to comply with any of the principles established by relevant corporate governance codes of individual countries or equivalents but to explain their reasons for non-compliance, asset managers should engage with the company to understand their thought process and address the quality and detail of these explanations as necessary.
- GPIF expects asset managers of passive equity investment mandates to develop and effectively implement a corporate engagement strategy to promote the sustainable growth of the market.
- When using an engagement agency or third-party engagement service provider, asset managers should conduct proper due diligence prior to their selection and undertake continuous monitoring after selection.

### **(4) ESG Integration into the Investment Process**

- GPIF believes that it is vital to integrate environmental, social and governance (ESG) factors into the investment process to increase corporate value and promote the sustainable growth of investee companies and the capital market as a whole, thereby contributing to long-term investment returns. Asset managers should consider the materiality of ESG issues in relevant sectors and the circumstances of individual investees and deal with those factors accordingly.
- Asset managers should determine which ESG issues they deem to be critical, specify goals that they would like to achieve as a long-term investor, and proactively engage with investee companies on these issues.
- Asset managers should become signatories of the Principles for Responsible Investment (PRI), and participate in other industry ESG initiatives.

### **(5) Exercise of Voting Rights**

- Asset managers should exercise the voting rights relating to GPIF’s investments exclusively in the best interests of GPIF and its beneficiaries.
- In order to promote long-term corporate value at investee companies, asset managers should exercise voting rights in accordance with the GPIF Proxy Voting Principles as attached.
- When using a proxy voting advisor, asset managers should conduct proper due diligence prior to their selection. After selection, asset managers should continuously monitor service quality and engage with the proxy voting advisor as necessary (excluding cases where the objective is managing conflicts of interest in relation voting on their own shares (see section 2 above)).

## Proxy Voting Principles

Established on June 1, 2017  
Revised on February 6, 2020

- In accordance with the GPIF's Stewardship Principles, GPIF's external asset managers ("asset managers") should exercise any and all voting rights in a manner consistent with their ongoing corporate engagements and other stewardship activities.
- Asset managers should develop a proxy voting policy and guidelines that will contribute to the maximization of shareholders' long-term interests. Asset managers should publicly disclose their proxy voting policy and guidelines in order to make the basis for their voting decisions clear.
- Asset managers should have sufficient communication with investee companies to inform their voting decisions and to ensure that all voting rights are exercised with thoughtful consideration.
- Asset managers should give careful consideration to environmental, social and governance (ESG) issues when exercising voting rights, with the objective of enhancing investee companies' corporate value over the medium- to long-term.
- Asset managers should apply careful due diligence when exercising voting rights on proposals that could undermine minority shareholders' interests as well as those that could protect minority shareholders' interests.
- Asset managers should generally exercise voting rights in support of the Corporate Governance Codes established by the individual countries in which their investee companies are domiciled. When there is no such code or equivalent, asset managers should appropriately exercise voting rights in support of the internationally recognised standards that they require investee companies to follow.
- If asset managers use a proxy voting advisory service to exercise voting rights, they should not mechanically follow the advisor's recommendations (excluding cases in which the objective is to manage their own conflicts of interest). In all cases, it will remain the sole responsibility of asset managers to exercise voting rights in the best interests of GPIF and its beneficiaries.
- Asset managers should publicly disclose their entire voting record on an individual company and individual agenda item basis.
- Asset managers should disclose the rationale for their voting decisions based on necessity and/or importance as appropriate.
- Asset managers should explain the rationale for their voting decision in detail to investee companies upon request.
- Asset managers should periodically review their voting records and conduct self-assessments.
- Based on their self-assessments, asset managers should update their policies for the following year as necessary.



