

Promoting “Win-Win Relationship” in the investment value chain –Stewardship responsibility and ESG integration

November 2016

GPIF

GPIF Website



GPIF YouTube channel



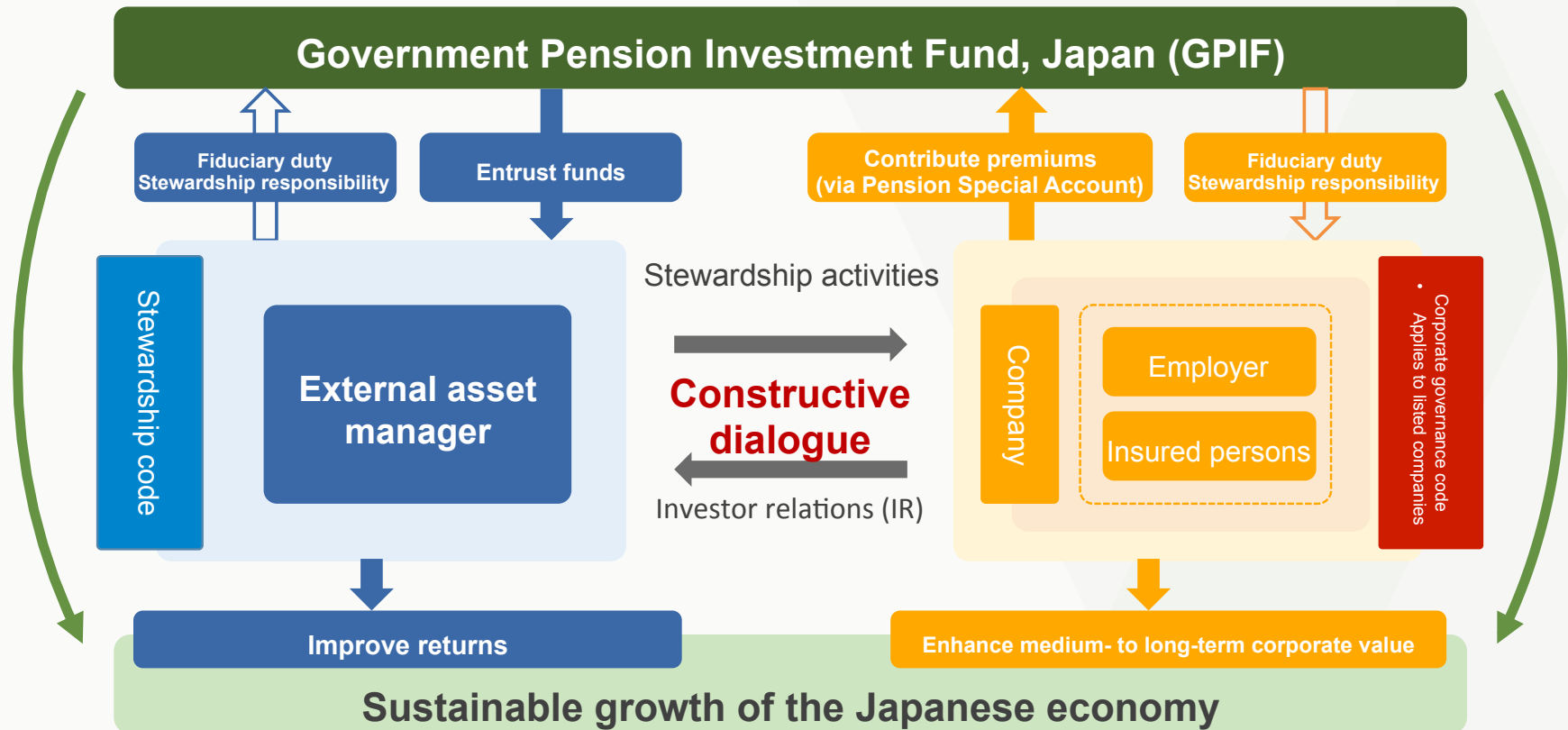
GPIF



GPIF's past actions on stewardship activities

	Description
May 2014	Announced the intention to adopt a Japan version of Stewardship Code, releasing the Policy for Fulfilling Stewardship Responsibilities
October 2014	Entrusted three companies with “Survey and Research on Stewardship Responsibilities and ESG Investments at the Government Pension Investment Fund”
March 2015	Announced “Investment Principles”
September 2015	Became a signatory to the United Nations’ Principles for Responsible Investment (UN-PRI)
September 2015	Interviewed all the external asset managers (20 entities) entrusted by GPIF with Japanese stock investment on the status of their stewardship activities
December 2015	Recruited an expert dedicated to stewardship activities
January 2016	Released “Summary Report of GPIF's Stewardship Activities in 2015”
March 2016	Established the “Stewardship Enhancement Group”
April 2016	Released “Summary Report of Listed Companies’ Survey about Institutional Investors’ Stewardship Activities”
July 2016	Initiated the “Call for Applications for ESG Index for Japanese Equities”
July 2016	Announced the establishment of “Business and Asset Owner’s Forum” and “Global Asset Owners’ Forum”
September 2016	Held the inaugural “Business and Asset Owner’s Forum” meeting
October 2016	Establishment stewardship & ESG division
November 2016	Joined the UK 30% Club and the US Thirty Percent Coalition

Desirable win-win chain



Promote constructive dialogue (engagement) with investee companies and external asset managers
Likely to see corporate value grow and returns improve from a medium- to long-term perspective

Priority challenges and efforts of stewardship activities

Objectives

Enhance medium- to long-term investment returns for GPIF's insured persons by increasing corporate value and encouraging sustainable growth

“Enhance Sustainable Corporate Value” and “Enhance Capital Market Efficiency”

Priority challenges for fulfilling stewardship responsibility

Reinforce external asset manager's stewardship activities

Build a win-win environment for investment chain

Consider environmental, social and governance (ESG) in investment

Specific efforts

- Revise the evaluation criteria for external asset managers (increase the weighting of efforts related to stewardship responsibility by passive management external asset managers, among other steps)
- Improve external asset managers' governance (prevent conflicts of interest)
- Conduct a questionnaire survey on companies whose stocks were selected for the JPX-Nikkei Index 400
- Hold the Business and Asset Owner's Forum
- Hold the Global Asset Owners' Forum
- Reinforce collaboration with PRI (Principles for Responsible Investment) and international associations
- Call for applications for ESG indices composed of Japanese stocks

Establishment of Business and Asset Owner's Forum and Global Asset Owners' Forum

■ Business and Asset Owner's Forum

- Established after receiving a proposal from multiple companies, including OMRON Corporation, Eisai Co., Ltd. and Nissan Motor Corporation, for creating a venue for GPIF as an Asset Owner and businesses to engage in sustainable and constructive dialogue
- Aim to optimize and streamline investment chains through providing, as we see fit, our external asset managers and overseas asset owners with feedback on opinions and requests from companies (meeting to be held twice a year)

■ Global Asset Owners' Forum

- In order to further fulfill steward responsibility for GPIF's insured persons, we established the Forum as a venue for having a sustainable exchange of opinions between GPIF and non-Japanese public pension funds, which have made advanced efforts in the stewardship responsibility area, and aim to utilize their sophisticated expertise
- Inaugural forum members comprise about 20 institutional investors, including the following 10 institutions, which will be joined by more members in due course
 - USA: CalSTRS, CalPERS, the State Board of Administration of Florida, the State of Wisconsin Investment Board and the Regents of the University of California
 - Canada: Ontario Teachers' Pension Plan
 - UK: Universities Superannuation Scheme and RPMI Railpen
 - The Netherlands: PGGM and APG
 - Norway: NBIM

Call for Applications for ESG Indices of Japanese Equities

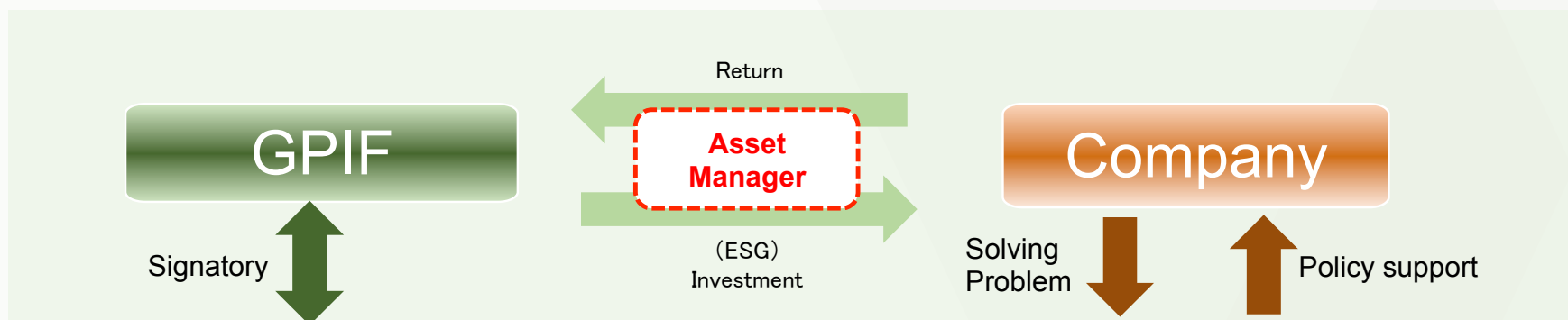
Objective of calling for applications for ESG Indices

- It is reasonable for a universal owner such as GPIF to aim to maximize long-term returns from a portfolio through minimizing negative externalities including environmental and social problems.
- As for a risk-reducing effect that will presumably come from considering environmental, social and governance (ESG) factors in making investment, the longer the investment term, the more risk-adjusted returns will likely improve due to the effect, meaning it is highly significant for GPIF to consider ESG factors concerning investment.
- For the purpose of exploring, based on the above-mentioned thinking, the feasibility of Japanese stock passive investment that considers ESG factors, we publicly solicit indices that will likely serve to lower risks and achieve excess returns from a medium- to long-term viewpoint thanks to an ESG effect.

27 products from 14 companies applied our call for ESG Indices.

PRI, SDGs and ESG Investment

■ Social challenges create both business and investment opportunities



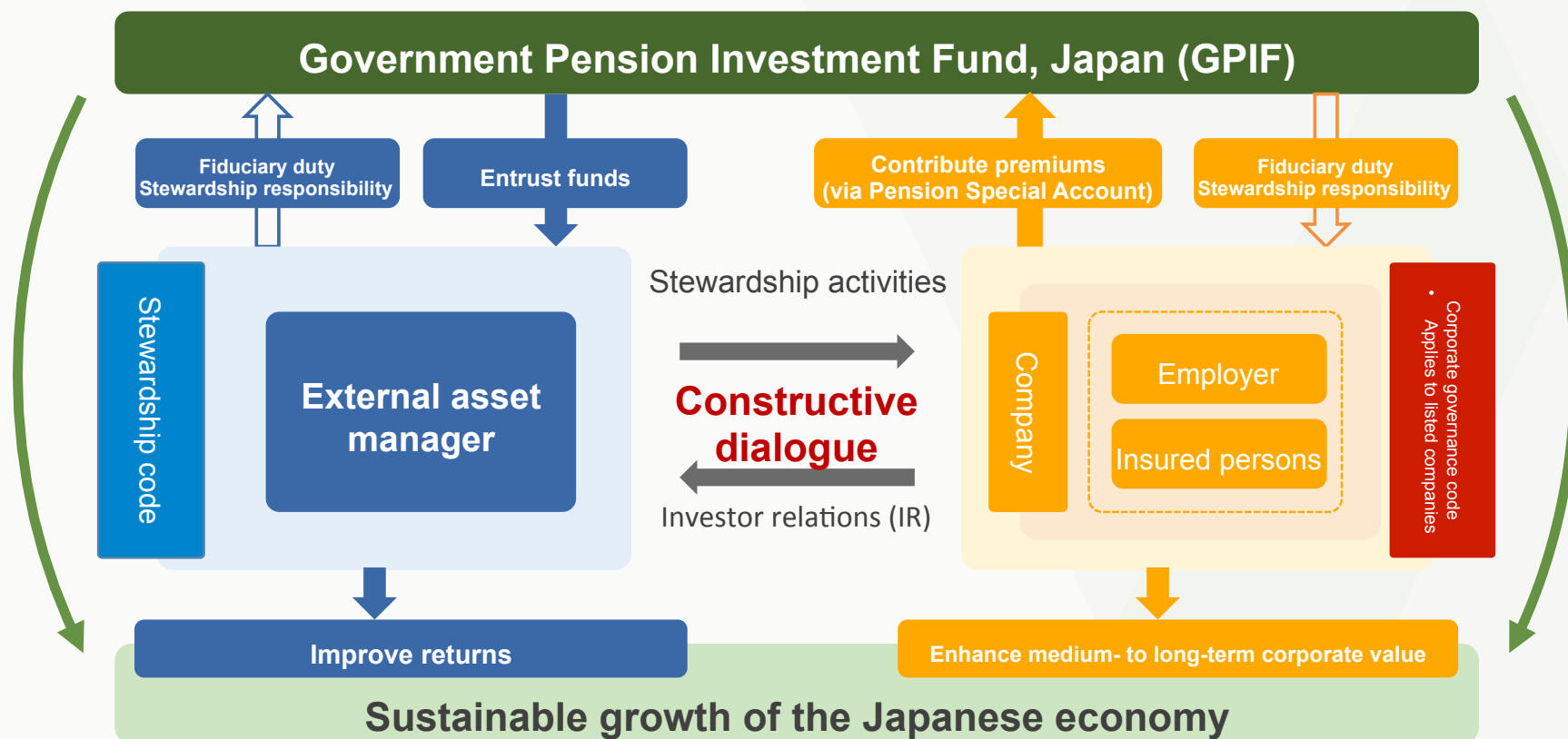
- Principle 1**
We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2**
We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3**
We will seek appropriate disclosure on ESG issues by the entities in which we invest. .
- ...



Hirofumi Mizuno, GPIF's CIO, was nominated as a member of the Asset Owner Advisory Committee in 2016.

Norihiro Takahashi, GPIF's President, was nominated as a member of Japanese Government SDGs Promotion Round Table in 2016.

Desirable win-win chain (displayed again)



Promote constructive dialogue (engagement) with investee companies and external asset managers
Likely to see corporate value grow and returns improve from a medium- to long-term perspective

Excellent “Corporate Governance Reports” nominated by GPIF’s asset managers

Code	Company name	Key remarks
4452	Kao	<ul style="list-style-type: none"> Although Kao initially announced to have “Implemented Completely,” it changed to the “Explain” category all items other than those that were judged to have been implemented without room for doubt. An honest attitude will lead to higher confidence in the company’s disclosure. We also highly evaluated the fact that the company had updated, in its official website, the change history of its corporate governance report. Concerning the evaluation of effectiveness of Kao’s board of directors, the report specifically presents an outline of the evaluation processes and results, which shows how determined the company is to improve the function of the board.
6645	Omron	<ul style="list-style-type: none"> The report provides disclosure on all 73 items (corporate governance policy), and transparency for human resources affairs is secured by establishing the CEO Selection Advisory Committee. The report is easy to read. The report, presenting Omron’s value-creation story based on the company’s corporate philosophy in a reader-friendly manner, serves as one with which to easily understand the organization’s path towards improving its corporate value. Moreover, the report provides qualitative and quantitative disclosures on not only the entire company but also individual segments in a well-balanced manner, delivering a significant amount of information with which to consider if the company may be invested in.
1878	Daito Trust Construction	<ul style="list-style-type: none"> The report covers all items using its unique expressions, and its contents are consistent with information provided in Daito Trust Construction’s past investor relations meetings, allowing the reader to know that the company is striving to realize highly transparent business management, a feature which is highly evaluated.
4911	Shiseido	<ul style="list-style-type: none"> The report enables the reader to know how well the board of director’s effectiveness is evaluated and director training is provided. Moreover, the report allows the reader to understand that Kao: 1) aims to implement monitoring board-based corporate governance; 2) strives to identify what form the board should take for improving the company’s corporate value.
6146	DISCO	<ul style="list-style-type: none"> We highly evaluate the fact that the report presents, clearly and specifically, the requirements for the election of directors (e.g., sales, technology, manufacturing, procurement, legal affairs, accounting, information technology, or IT, and safety/sanitation) as well as DISCO’s policy and criteria for its performance-linked compensation system.
6361	Ebara	<ul style="list-style-type: none"> We note that, in its board of directors evaluation, Ebara is found to have been actively striving as evidenced by the fact the company analyzed itself against benchmarks based on the experiences of advanced enterprises and U.S. companies. We highly evaluate Ebara’s foreign investor-friendly services including the provision of corporate governance reports and convocation notices in English.

Note: Answers were provided from 16 companies among external asset managers entrusted by GPIF with Japanese stock investment. Each asset manager cited three companies that have excellent corporate governance reports, and the information was collected. In addition to the companies shown in the table, the following organizations were referred to: Horiba, NIDEC, Nippon Paper, Nissan Chemical, Teijin, Sekisui Chemical, Komatsu, Mitsubishi Heavy Industries, Mitsubishi UFJ Financial Group, Shionogi, Itochu, United Arrows, Yamaha Motor, Yakult, Mizuho Financial Group, Bandai Namco Holdings, Toyota Motor, Denka, Sumida Corporation, Start Today, Kirin Holdings, Capcom, Kakaku.com, Olympus, ORIX, Anritsu, Asahi Group Holdings, TDK, MS&AD, J. Front Retailing, HOYA, and Kameda Seika.

Excellent “Integrated Reports” nominated by GPIF’s asset managers

Code	Company name	Key remarks
9697	Capcom	<ul style="list-style-type: none"> Capcom’s entire integration report, composed mainly of information on the company’s medium-term business plan, communicates its strategy as scenarios to investors. The report clearly states the company’s goals as well as tasks and initiatives for achieving them. In addition, we highly evaluate the fact that the report explains how CSR activities will contribute to corporate profits. We highly evaluate the fact that the report describes the dialogue between outside directors and institutional investors as well as principal deliberations at board of directors meetings.
6645	Omron	<ul style="list-style-type: none"> The report outlines how top management sees the current state of affairs at Omron, coupled with its policy to handle them. We highly evaluate the fact that the report discloses metrics on which the company is working hard as well as the competitive environment, among other non-financial information. The report also illustrates, in an easy-to-understand manner, the company’s operational portfolio management, covering all of its business lines, as well as their growth potential, from a return on invested capital (ROIC) management perspective. The report serves to clarify anew that Omron properly understands the significance of separating the posts of the chair of the board of directors from the CEO as well as the role of outside directors and the operational procedures of the CEO Selection Advisory Committee, and takes relevant actions.
2802	Ajinomoto	<ul style="list-style-type: none"> What we find unique is Ajinomoto’s aspiration to grow while contributing to society through its unparalleled approach using investor-friendly reports. The report plainly outlines the company’s unique creating-shared-value (CSV) management strategy titled Ajinomoto Group Shared Value through which to aim to deliver social value, create new economic value and grow operations by resolving social challenges, with the aim of becoming a top ten global foods company by 2020.
4927	POLA ORBIS Holdings	<ul style="list-style-type: none"> The company’s brand strategy is linked to its efforts to address environmental and social challenges. The report outlines the company’s value creation process by comparing its financial and non-financial capital amounts. We highly evaluate the importance the company attaches to dialogue with stakeholders as well as its approach of providing feedback for business administration.
8252	Marui Group	<ul style="list-style-type: none"> What we find clear is the company’s commitment to its cash flow allocation, business metrics and capital policy. The company discloses its efforts on diversity issues from a social challenge perspective.
8058	Mitsubishi Corp.	<ul style="list-style-type: none"> The report illustrates in detail the company’s outside director-only meeting scheme as well as the director remuneration system. The report is well balanced in that it features the company’s efforts to continuously enhance its corporate value in many fields such as governance, risk management and global corporate social responsibility (CSR) activities.
1925	Daiwa House	<ul style="list-style-type: none"> We highly evaluate the fact the report clearly outlines the company’s business management approach as well as the importance of its capital allocation policy at a time when it is faced with macroeconomic adversity of a population decrease. The report also discloses in detail the company’s future investment plans, coupled with individual business division’s earnings targets.
6856	Horiba	<ul style="list-style-type: none"> The company’s corporate philosophy is clear-cut and highly convincing. The report concisely explains how the company will secure business opportunities on the back of its competitive advantage, and outlines segment-by-segment long-term targets as well as non-financial capital-based value creation.
7011	Mitsubishi Heavy Industries	<ul style="list-style-type: none"> The report presents, in a highly reader-friendly manner, the company’s history as well as its strengths and challenges as a diversified business operator, coupled with its measures to address such challenges (the pursuit of the domain system and cash flow-based business management).

Note: Answers were provided from 16 companies among external asset managers entrusted by GPIF with Japanese stock investment. Each asset manager cited three companies that have excellent integrated reports, and the information was collected. In addition to the companies shown in the table, the following organizations were referred to: J. Front Retailing, SCSK, TDK, Asahi Group Holdings, Anritsu, Eisai, Olympus, Calsonic Kansei, TS TECH, Nabtesco, Fujikura, Mizuho Financial Group, United Arrows, Ricoh, Leo Palace 21, Asahi Kasei, ITO EN, Kansai Electric Power, Mitsui Chemical, Mitsubishi Chemical Holdings, Daito Trust Construction, Chugai Pharmaceutical, and Japan Airlines.