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# FY2019 Annual Stewardship Activity Report

March 2020

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[DISCLAIMER] When there are any discrepancies between the original Japanese version and the English translation version, the original Japanese version shall prevail.

## 1 Overview of the Association's stewardship activity

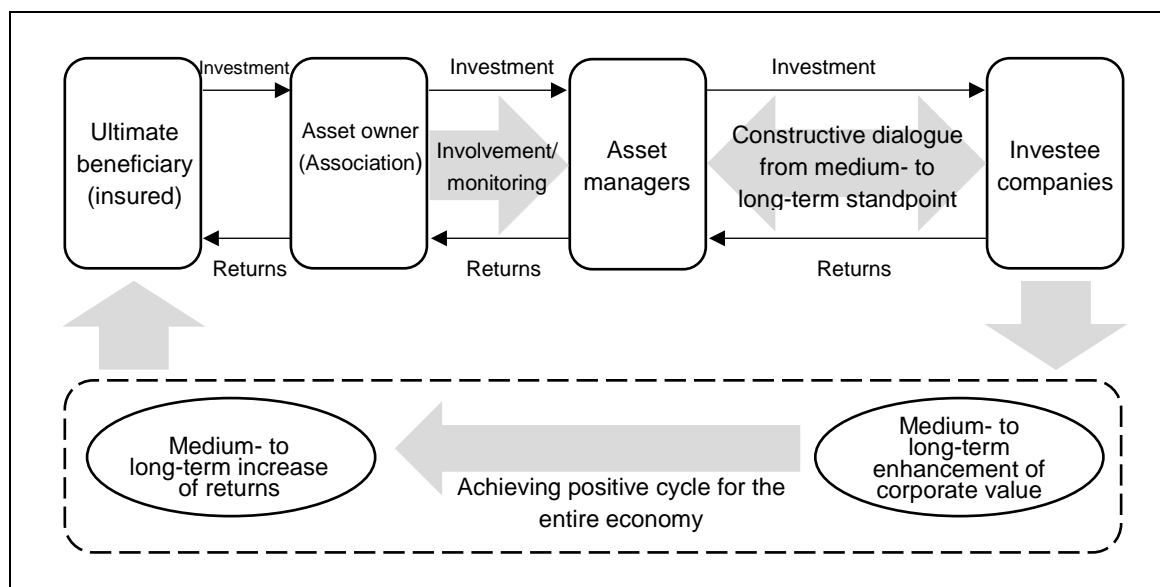
"Stewardship activities" refers to the activities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive "purposeful dialogue" based on a deep understanding concerning the investee companies, their business environment, and other factors).

Stewardship activities include the exercise of shareholders' voting rights, engagement, and ESG investment.

The Pension Fund Association for Local Government Officials ("Association") is required to fulfill its fiduciary responsibility of increasing the value of its assets for the insured over the long term and social responsibility as a public pension fund. In this connection, as the means to seek medium- to long-term enhancement of corporate value and sustainable growth of investee companies, the Association has been proactively committed to effective stewardship activities.

In addition, the Association entrusts investment management institutions ("asset managers") to make stock investments in companies. The Association believes that conducting the stewardship activities through these asset managers is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.

## [Stewardship Activities]



Prepared based on the documents distributed at the 1st meeting of the Council of Experts on the Stewardship Code (Financial Services Agency)

Based on this idea, the Association established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" (hereinafter referred to as "Guidelines for Domestic Equities") in 2004 and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)" (hereinafter referred to as "Guidelines for Foreign Equities") in 2016. These guidelines and principles specify that the Association should conduct stewardship activity based on them when it has concluded contracts with asset managers. In addition, the principles concerning funds specify how the Association should fulfill its stewardship responsibilities.

Moreover, in May 2014, the Association signed up to Japan's Stewardship Code, and in November 2017, the Association made its approach to stewardship activity clearer than before following the revision of the Stewardship Code.

The Association has started investing in ESG fund in 2010, and has entrusted ESG investment through four domestic stock products. In addition, in 2019, the Association started investing in ESG bonds as part of in-house investment in domestic bonds.

**[Chronology of the Association's stewardship activity]**

Year	Activities
2004	<ul style="list-style-type: none"> <li>- Established the Corporate Governance Principles of Pension Fund Association for Local Government Officials.</li> <li>- Established the Guidelines for Exercising Shareholders' Voting Rights. Instructed asset managers to exercise voting rights in line with the Guidelines.</li> </ul>
2010	<ul style="list-style-type: none"> <li>- Newly adopted a product for an ESG fund concerning domestic equities.</li> </ul>
2014	<ul style="list-style-type: none"> <li>- Signed up to Japan's Stewardship Code.</li> <li>- Newly added another product to ESG fund concerning domestic equities.</li> </ul>
2015	<ul style="list-style-type: none"> <li>- Established the Administration and Investment Policy and the Basic Policy in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities.</li> <li>- Newly added two products to ESG fund concerning domestic equities.</li> </ul>
2016	<ul style="list-style-type: none"> <li>- Established the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities). Instructed asset managers to exercise voting rights in line with the Guidelines.</li> </ul>
2017	<ul style="list-style-type: none"> <li>- Signed up to Japan's Stewardship Code (Revised Version).</li> </ul>
2019	<ul style="list-style-type: none"> <li>- Started investing in ESG bonds as part of in-house investment in domestic bonds.</li> </ul>

\*See pages 55 through 57 for details

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## 2 Monitoring of asset managers in FY2019

For each fiscal year, the Association has been monitoring the stewardship activities of the asset manager of equities so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts. The Association receives reports concerning stewardship activity from and holds interviews with the asset manager.

In May 2019, the Association held briefing meetings on the direction of the Association's stewardship activity for asset managers entrusted with domestic and foreign stock investment (27 companies in total) in FY2019 and explained the matters which the Association considers important in relation to stewardship activities (see below).

### **[Matters which the Association considers important in relation to stewardship activities]**

#### **[Exercise of voting rights]**

- (i) Compliance with the Association's guidelines for exercising shareholders' voting rights
- (ii) Exercise of voting rights suited to the circumstances of companies

#### **[Exercise of voting rights/engagement]**

- Exercise of voting rights and engagement in an integrated manner

#### **[Engagement]**

- (i) Engagement aimed at enhancing the corporate value and sustainable growth of companies
- (ii) Details of engagement
- (iii) Effectiveness of processes (e.g., PDCA cycle)

In May to July, the Association provided feedback regarding the evaluation of stewardship activities in FY2018 individually to asset managers that requested it.

In July, the Association requested all asset managers entrusted with stock investment to submit reports on policies, structures, processes for and results of stewardship activities of FY2018. Based on the reports submitted, the Association held interviews focused on the matters which the Association considers important in relation to stewardship activities (October 15 to 29, 2019).

### 3 Publication of activities through reports of investment results

Since FY2015, the Association has been obligated to publish an annual report of investment results ("Review of Operations") describing activities concerning the exercise of voting rights relating to stocks based on the Local Public Officers, etc. Mutual Aid Association Act.

The Association's stewardship activity in FY2019 and the matters observed through monitoring will be described in the Review of Operations for FY2019 (scheduled to be published in FY2020).

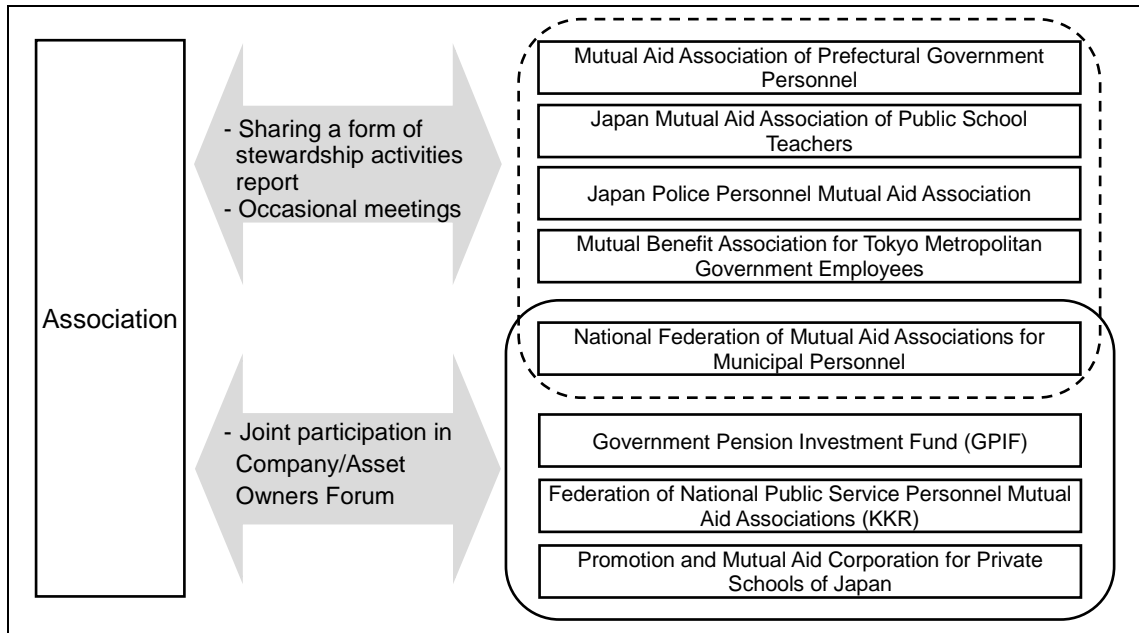
### 4 Collaboration with other public pension funds, etc.

In order to enhance the effectiveness and efficiency of stewardship activity, the Association holds meetings on stewardship activity on an as-needed basis with the Local Public Service Mutual Aid Associations (the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, and the National Federation of Mutual Aid Associations for Municipal Personnel) and use common forms of reports concerning stewardship activity to be submitted by asset managers.

In addition, the Association is engaged in collaboration with other public pension funds, by such means as participating in a Business/Asset Owners Forum (this forum is held in order to let participating companies exchange opinions with asset managers about constructive dialogue and to allow GPIF and other asset owners to use the results as a reference for stewardship activity).



**[Collaboration with other public pension funds, etc.]**



**1** Matters which the Association considers important in relation to the exercise of voting right

**(1) Compliance with the Association's Guidelines for exercising shareholders' voting rights (domestic equities)**

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It was learned that all asset managers entrusted with domestic stock investment by the Association exercise voting rights in accordance with account criteria (specific criteria for exercising voting rights related to accounts entrusted by the Association) reflecting the Guidelines on Domestic Equities.

It was learned that asset managers implementing excellent initiatives have established a process of more objectively observing compliance with the Guidelines on Domestic Equities, as divisions, sections, or committees other than those responsible for the exercise of voting rights examine compliance with those guidelines.

On the other hand, regarding some asset managers, the Association observed cases in which an asset manager improved the objectivity of assessment by adding outside members to the committee that examines the results of exercise of voting rights ex-post facto but the examination was insufficient in reality as it could not recognize the inappropriate exercise of voting rights until it was pointed out by the Association (the asset manager voted against the election of a new outside director who should have been voted for and could not recognize the inappropriate exercise until it was pointed out by the Association).

The Association will continue to seek asset managers' exercise of voting rights in compliance with the Guidelines on Domestic Equities.

**(2) Exercise of voting rights suited to the circumstances of companies**

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The Association observed cases in which asset managers conducting excellent initiatives exercised voting rights in consideration of the contents of dialogue with companies based on sufficient understanding of the purpose of the Guidelines for Domestic Equities (see Cases (A) and (B) below).

It was learned that when exercising voting rights in ways deviating from the principles of the account criteria, for example by reflecting the contents of engagement, some asset managers make judgement separately, through a committee, etc. This means that they are engaging in the excellent initiative of managing conflicts of interest by making decisions through a collegiate body while seeking to exercise voting rights in ways suited to the circumstances of investee companies. In addition, it was learned that some asset managers using

an external service for the exercise of voting rights are implementing the excellent initiative of periodically examining service providers' advice-providing capability in order to receive appropriate advice that leads to an exercise of voting rights suited to the circumstances of investee companies.

On the other hand, regarding some asset managers, the Association observed cases in which the decision on the exercise of voting rights was made universally based on quantitative criteria and individual proposals were not closely reviewed (asset managers universally voted against proposals for the election of new internal directors applying the ROE criteria, although the candidates were not considered to be responsible for the past business performance).

In order to ensure appropriate judgment suited to the circumstances of companies, the Association has indicated the Guidelines on Domestic Equities and entrusts asset managers to make specific judgment on exercising voting rights.

The Association will require asset managers to exercise voting rights based on appropriate judgement suited to the circumstances of companies after sufficiently understanding the purpose of the Guidelines for Domestic Equities, instead of mechanically applying the Guidelines for Domestic Equities to the exercise of voting rights.

Cases	Provisions of Guidelines for Exercise of Shareholders' Voting Rights (Domestic Equities)/Response of Asset Managers	
(A)	Provisions of Guidelines	Unless there is sufficient explanation, negative decisions on defensive measures against hostile takeovers shall be made from the perspective of increasing shareholder's value over the long term (....)
	Response of asset managers	Asset Manager A voted for a proposal for maintaining takeover defense measures based on dialogue with the company adopting the measures after confirming that the measures were accompanied by strict conditions and were intended to guard against abusive takeover and that the company had no intention to further maintain the measures.
(B)	Provisions of Guidelines	With respect to directors' compensation, we make positive decisions for a compensation scheme linked to medium- to long-term corporate performance (....)
	Response of asset managers	Asset Manager B voted against a proposal related to stock compensation because the descriptions regarding the details of the stock compensation system and its linkage with KPIs under a medium-term plan were insufficient.

## Exercise of Voting Rights and Initiatives (Domestic Equities)

### (3) Exercise of voting rights and engagement in an integrated manner

It was learned that almost all asset managers entrusted with domestic stock investment by the Association implement the exercise of voting rights and engagement in an integrated manner (see Cases (A), (B) and (C) below).

The Association expects investee companies to be managed in a way that contributes to long-term shareholder value and believes that if shareholder value is not likely to increase, it is necessary to call for management needed for enhancing shareholder value. In doing so, the Association believes that instead of unilaterally exercising voting rights, asset managers should share the recognition of problems and other issues with the companies through various means, including explaining the views underlying their judgement on the exercise of voting rights.

The Association will continue requiring asset managers to conduct the exercise of voting rights and engagement in an integrated manner.

Cases	Response of asset managers
(A)	Asset Manager A informed Company A of its vote against a proposal related to the appropriation of surplus, due to the judgement that the shareholder return is too small relative to the excess financial capacity, and of the background factors. Company A replied that it was aware of the need to provide more careful explanations regarding the necessary cash level and investment size and were considering this as a challenge. Later, Asset Manager A voted for the proposal related to the appropriation of surplus after learning of an increase in the dividend payout ratio when changes in the shareholder return policy were announced later.
(B)	Regarding Company B's proposal for the election of an outside director that was scheduled to be presented at the next general shareholders' meeting, Asset Manager B proposed to the company that a new outside director should be invited because of doubt about the independence of the proposed candidate. Company B replied that it was also taking the low vote-for rate for the candidate seriously. At the general shareholders' meeting, Asset Manager B voted for the proposal because the candidate for whom doubt about independence had been raised retired and a new candidate for independent outside director who met the criteria set by the Tokyo Stock Exchange was elected.
(C)	Concerning Company C's proposal for maintaining takeover defense measures scheduled to be presented at the next general shareholders' meeting, Asset Manager C recommended discontinuation of the measures based on the judgement that maintaining them would be undesirable from the viewpoint of increasing long-term shareholder value. In response, Company C adopted a resolution for discontinuing the takeover defense measures at a board of directors' meeting and refrained from presenting the proposal at the general shareholders' meeting. Later, Company C explained that it had decided to discontinue the measures because it recognized their inconsistency with the circumstances of the time as a result of internal discussions, and expressed an intention to enhance its governance.

## 2 Specific examples

Regarding some asset managers, the Association observed cases of excellent initiatives in which a conference body or organization including outsiders was used to examine the validity of judgment concerning the exercise of voting rights and the criteria for exercising voting rights (see Cases (A) and (B) below).

As the Association regards the exercise of voting rights as an important means to sufficiently reflect the opinions of the Association as a shareholder in investee companies' management, it believes that asset managers should continue efforts to enhance the effectiveness of this activity.

The Association will require asset managers to enhance the effectiveness of this activity by developing and using a PDCA cycle in consideration of the viewpoints of other divisions and third-party entities.

Cases	Activities of asset managers
(A)	At Asset Manager A, a third-party committee of which the majority are outsider members examine in advance the validity of judgment concerning the exercise of voting rights when there are concerns over conflicts of interest. In addition, members of this committee attend, as observers, meetings of the committee responsible for decision-making concerning stewardship activities and provide advice concerning an exercise of voting rights suited to the circumstances of investee companies and revision of the internal criteria. A dedicated division examines the account criteria in light of discussions held at the time of revision of the internal criteria.
(B)	At Asset Manager B, members of a third-party committee of which the majority are outsiders attend, as observers, meetings of a deliberative body responsible for the policy for the exercise of voting rights, and examine validity and provide advice concerning an exercise of voting rights suited to the circumstances of investee companies and revision of the internal criteria. The third-party committee examines the validity of the whole of the process of exercise of voting rights.

### 3 Results of the exercise of voting rights (domestic equities)

The Association exercises voting rights in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 22 asset managers entrusted with domestic stock investment (43 funds in total), with respect to a total of 15,820 companies which settled accounts between April 2018 and March 2019. The number of proposals for which voting rights were exercised was 55,148.

Of the 55,148 proposals, 13,631 (including 1,507 shareholder proposals) were voted against, translating into a vote-against rate of 24.7% (up 0.8 point from the previous year). The vote-against rate concerning company proposals was 22.6% (up 1.0 point).

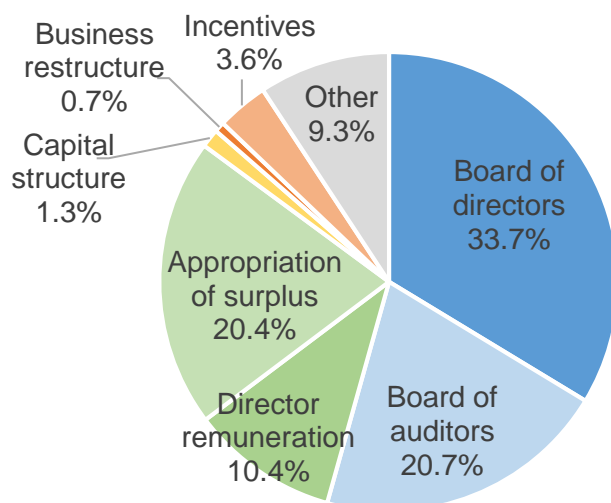
The vote-against rate came to 39.2% (down 1.1 points) concerning proposals related to the board of directors/directors, 21.1% (up 6.1 points) concerning proposals related to the board of auditors/auditors and 23.2% (up 3.8 points) concerning proposals related to director remuneration, etc.

The results of the exercise of voting rights in relation to the Transitional Long-term Benefit Adjustment Fund which is managed under the same strategy were the same.

**Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)**  
**Companies with accounting settlement between April 2018 and March 2019**

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
<b>Total</b>	<b>55,148</b>	<b>100%</b>	<b>41,517</b>	<b>75.3%</b>	<b>13,631</b>	<b>24.7%</b>	<b>23.9%</b>
c.f. Company Proposal	53,534	97.1%	41,410	77.4%	12,124	22.6%	21.6%
c.f. Shareholder Proposal	1,614	2.9%	107	6.6%	1,507	93.4%	91.6%
<b>By Subject</b>	<b>55,148</b>	<b>100%</b>	<b>41,517</b>	<b>75.3%</b>	<b>13,631</b>	<b>24.7%</b>	<b>23.9%</b>
Board of Directors/Directors	18,568	33.7%	11,291	60.8%	7,277	39.2%	40.2%
Board of Auditors/Auditors	11,402	20.7%	9,001	78.9%	2,401	21.1%	15.0%
Director Remuneration, etc.	5,734	10.4%	4,402	76.8%	1,332	23.2%	19.4%
Appropriation of Surplus	11,230	20.4%	10,717	95.4%	513	4.6%	4.8%
Capital Structure	721	1.3%	297	41.2%	424	58.8%	37.0%
Takeover Defense Measures	473	0.9%	78	16.5%	395	83.5%	93.7%
Capital Increase or Reduction	39	0.1%	39	100%	0	0.0%	3.1%
Third Party Allotment of Shares	40	0.1%	37	92.5%	3	7.5%	16.7%
Acquisition of Own Shares	23	0.0%	1	4.3%	22	95.7%	44.4%
Business Restructure	396	0.7%	396	100.0%	0	0.0%	2.4%
Incentives Improvement for Executives	1,991	3.6%	1,592	80.0%	399	20.0%	20.8%
Other proposals	5,106	9.3%	3,821	74.8%	1,285	25.2%	27.8%

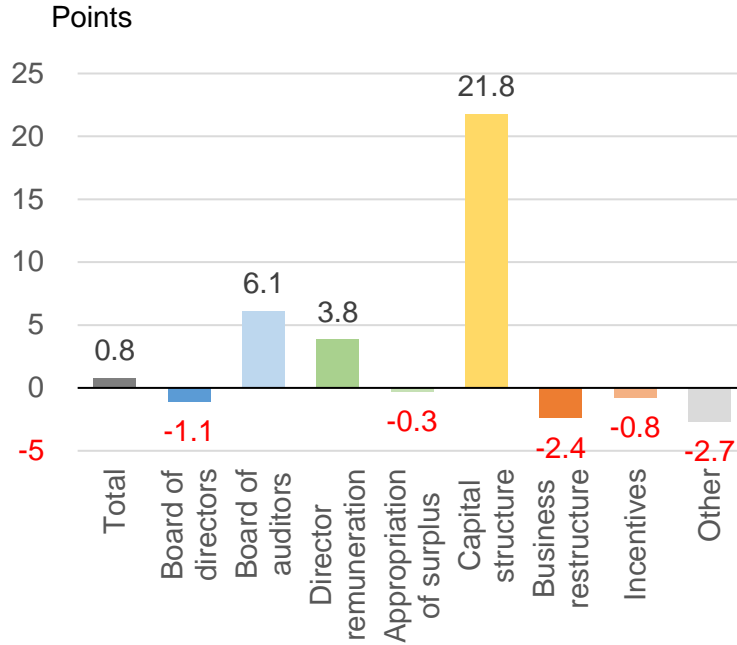
**Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)**  
**Companies with accounting settlement between April 2018 and March 2019**



## Exercise of Voting Rights and Initiatives (Domestic Equities)

### Changes in the vote-against rate (compared with the previous year) (Employees' Pension Insurance Benefit Adjustment Fund)

Companies with accounting settlement between April 2018 and March 2019





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**4****Examples of the exercise by proposal subject (domestic equities)****(1) Proposals related to the board of directors/directors**

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The vote-against rate remained high at 39.2% for reasons such as the presence of asset managers that tightened their criteria in spite of improving efforts for performance-based criteria and criteria for independence and composition of outside directors and an increase in the number of proposals for increasing the number of internal directors without clear and well-grounded reasons.

Proposals were voted against in the following cases:

- ✓ There was not a clear and rational reason for increasing the number of internal directors.
- ✓ There was a problem with the independence of the candidate for outside director because the candidate formerly worked for a major lender (or a major business partner).
- ✓ The board was judged to be responsible for the continued low level of ROE.
- ✓ It was judged that directors bore responsibility for antisocial acts that had produced serious effects.

**(2) Proposals related to the board of auditors/auditors**

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The vote-against rate rose from the previous year due to such factors as the presence of asset managers that tightened the criteria related to outside auditors' independence, such as requiring the submission of an independent directors/auditors notification to the Tokyo Stock Exchange.

Proposals were voted against in the following cases:

- ✓ There was a problem with the independence of an outside auditor because the candidate formerly worked for a business partner company.
- ✓ There was a problem with the independence of a candidate for outside auditor because the candidate had already served in the post for a long period of time.

### (3) Proposals related to director remuneration, etc.

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The vote-against rate rose from the previous year due to such factors as the presence of an asset manager that revised the criteria so as to require a vote against the payment of retirement allowances in principle and the continued efforts to strictly deal with inappropriate payment of retirement allowances such as the payment to outside directors and auditors.

Proposals were voted against in the following cases:

- ✓ Auditors responsible for supervising business administration were eligible for the payment of retirement allowances.

### (4) Proposals related to appropriation of surplus

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The vote-against rate remained low as it did in the previous year. Proposals were voted against in the following cases:

- ✓ The dividend payout ratio was low despite the possession of a large amount of surplus funds.

### (5) Proposals related to capital structure

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The number of inappropriate proposals decreased because many companies revised takeover defense measures, including strengthening the system of checks by outside directors, at the time of updating the measures. However, the vote-against rate rose from the previous year due to such factors as a further decrease in the number of proposals for reverse stock split, which asset managers had voted for in the past years.

Proposals were voted against in the following cases:

- ✓ It was judged that the criteria for invoking takeover defense measures were not clear.
- ✓ Because of the small proportion of independent outside directors in the board of directors, objective judgment on invoking takeover defense measures was not considered to be secured.

### (6) Proposals related to business restructure

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While the number of proposals increased because of an increase in proposals related to the spinoff of business divisions into separate companies, there was no proposal voted against.

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## (7) Proposals related to incentives improvement for executives

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The vote-against rate declined from the previous year due to such factors as an increase in the number of proposals for remuneration systems linked to medium- to long-term performance.

Proposals were voted against in the following cases:

- ✓ Outside directors responsible for supervising business administration were eligible for the stock compensation systems.
- ✓ Voted against because the linkage with the performance targets was unclear due to a lack of information on the details of the stock compensation system.

## (8) Other proposals

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The vote-against rate declined from the previous year due to such factors as a decrease in the number of cases of vote-against for shareholder proposals regarding the revision of companies' articles of incorporation.

1

Matters which the Association considers important in relation to engagement activities

### (1) Engagement aimed at enhancing corporate value and sustainable growth

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It was learned that all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth.

In the Signup to Japan's Stewardship Code, the Association stipulates as follows: "The Association will continue requiring the asset managers to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of enterprise values and sustainable growth of investee companies."

The Association will continue requiring asset managers to conduct engagement activities aimed at enhancing corporate value and sustainable growth.

## (2) Details of engagement

The Association believes that the most important factor that influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (See Cases (A) to (E) below).

The Association will continue requiring asset managers to conduct engagement activities leading to the improvement of corporate value.

Cases	Details of engagement	
(A)	Dialogue subject	<b>[Dialogue concerning corporate governance ("G" of ESG)]</b> As Investee Company A had been involved in a case of misconduct, Asset Manager A proposed to Company A that the proportion of outside directors on the board of directors and at voluntary committees should be raised and that the term of directors should be shortened from the viewpoint of strengthening the governance system.
	Result	After engagement, the proportion of outside directors rose and the term of directors was shortened.
(B)	Dialogue subject	<b>[Dialogue concerning management strategy]</b> Asset Manager B proposed to Company B the sale of loss-making businesses whose importance was considered to be low and the allocation of business resources to growth businesses. Asset Manager B also proposed profit management led by the head office.
	Result	After engagement, Company B announced withdrawal from loss-making businesses. The company also announced that it would shift to a business division system in order to strengthen its strategy implementation and governance.
(C)	Dialogue subject	<b>[Dialogue concerning capital policy]</b> Asset Manager C conducted dialogue with Company C about the company's intention to reduce excessive cross-shareholdings and the status of examination of the significance of cross-shareholdings.
	Result	After engagement, Company C published its annual securities report describing the status of reducing cross-shareholdings, stocks contemplated to be reduced and a policy to reduce such stocks in a proactive way.

(D)	Dialogue subject	<p><b>[Dialogue concerning environmental ("E" of ESG) issues]</b></p> <p>Asset Manager D proposed to Company D that the company should indicate the position of businesses whose future is uncertain and its risks and policy regarding the allocation of business resources from the viewpoint of countermeasures against global warming. Asset Manager D also called on Company D to clearly explain the relationship between its products related to other businesses and business growth based on the judgement that those products contribute to the resolution of environmental problems.</p>
	Result	<p>After engagement, Company D formulated measures that take into consideration the viewpoints of SDGs and ESG in order to achieve a sustainable increase in corporate value in the medium to long term under a newly announced medium-term management plan.</p>
(E)	Dialogue subject	<p><b>[Dialogue concerning social ("S" of ESG) issues]</b></p> <p>Asset Manager E informed Company E of its concern about the absence of any female director on the board of directors from the viewpoint of securing diversity of the board and also conveyed its intention to vote against a proposal for the election of directors responsible for nomination if no female candidate for director is nominated at the next general shareholders' meeting.</p>
	Result	<p>At the general shareholders' meeting held after engagement, Company E nominated a female candidate for independent outside director.</p>

### (3) Effectiveness of processes (e.g. PDCA cycle)

It was learned that all asset managers examined the effects of engagement and judged the success or failure of engagement.

Regarding some asset managers, the Association observed cases of excellent initiatives that resulted in further improvement of an appropriate engagement process based on their respective self-assessment (See Case (A) below). In addition, the Association also observed an excellent initiative in which an asset manager established a committee to report engagement activities in a concentrated way so as to ensure sufficient discussion for identifying and improving the current status of engagement (See Case (B) below).

As engagement is a "purposeful dialogue," the Association believes that it is necessary to examine whether or not the objective has been achieved through engagement. The Association also believes that the effectiveness of engagement should be checked in order to ensure sustainable engagement.

The Association will continue requiring asset managers to institutionally examine the effects of engagement.

Cases	Activities of asset managers
(A)	In response to the growing social interest and needs concerning specific ESG issues, Asset Manager A has reset ESG challenges from its own viewpoint and indicated and shared with investee companies, in writing, its perspective on each challenge, corporate behavior required of the companies and goals expected to be achieved. In addition, in order to more appropriately identify and manage progress and results of engagement activities related to each challenge, Asset Manager A is conducting more detailed milestone management and is trying to enhance management tools.
(B)	Although reports on engagement are made at regular committee meetings each quarter, Asset Manager B has established a forum for in-depth discussions on the specifics of engagement because it is facing a huge pile of agenda items. Through this measure, Asset Manager B is trying to spend sufficient time on identifying and improving the current status of engagement. It will make effective use of committee members' opinions on improvement proposals.

**2 Specific examples (domestic equities)**

Regarding some asset managers, the Association observed cases of initiatives to improve the effectiveness of engagement, such as connecting ESG information to the calculation of corporate value, participating in policymaking authorities' study groups and committees as members, making lobbying efforts targeted at ESG evaluation organizations, conducting dialogue with outside directors to confirm their objective view as to the effectiveness of the board of directors and the determination of proposals for which judgments vary, and encouraging companies to reduce cross-shareholdings (see Cases (A) through (E) below).

The Association will continue requiring asset managers to exercise efforts to improve the effectiveness of engagement activities according to their respective approaches.

Cases	Activities of asset managers
(A)	Asset Manager A started to use an original model for evaluation of corporate value that connects quantitative ESG evaluation to the calculation of corporate value as an element of judgement on corporate value. As it has become possible to identify ESG elements resulting in the discounting of corporate value, Asset Manager A is considering using the model for dialogue.
(B)	Asset Manager B conducts dialogue with ministries and agencies when problems that cannot be addressed by a single company arise. Asset Manager B conducted engagement with the Fisheries Agency concerning the sustainability of the fishery industry and with the Ministry of Land, Infrastructure, Transport and Tourism concerning working style reforms in the construction and transport industries.
(C)	Asset Manager C called on ESG evaluation organizations to appropriately identify the actual status of companies' ESG-related activities. It also introduced companies whose activities are considered to be not sufficiently understood to ESG evaluation organizations, thereby acting as a bridge of mutual understanding between those companies and institutions.
(D)	Asset Manager D actively and routinely conducts dialogue with internal and outside directors with respect to the effectiveness of the board of directors. When objective information becomes necessary for an appropriate exercise of voting rights due to a shareholder proposal or a case of misconduct at a company, Asset Manager D calls on the company to provide an opportunity for dialogue with outside directors. Asset Manager D periodically sends letters in the name of the group CEO to investee companies, creating opportunities for dialogue.
(E)	Although conducting engagement with a view to reducing cross-shareholdings in the medium to long term, Asset Manager E first encourages companies to examine the significance and necessity of cross-shareholdings in light of the relationship with the capital cost and financial strategy, rather than immediately selling all shares, and to disclose the results. Asset Manager E induces companies to voluntarily reduce cross-shareholdings based on their own recognition of the effects on financial efficiency.



### 3 Results of engagement activities (domestic equities)

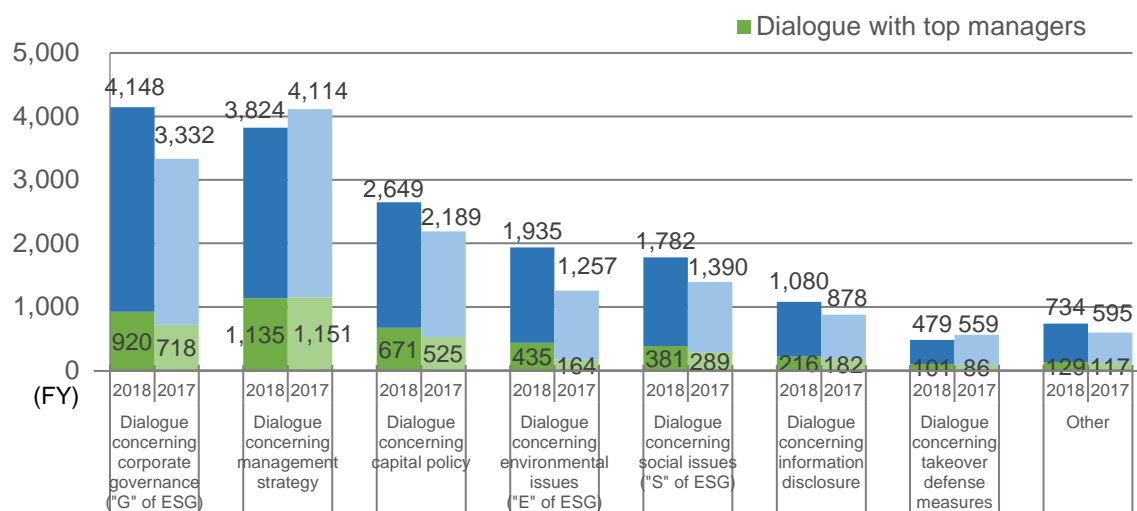
The Association implements engagement activities in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2018, the Association implemented engagement with a total of 4,868 companies through 22 asset managers (a total of 43 funds) to which domestic stock investment was entrusted. The number of cases of dialogue was 16,631 (up 16.2% from the previous year).

While some asset managers changed their organizational structures for engagement by such way as increasing engagement staff and improving efficiency, others focused on engagement related to environmental issues, social issues and corporate governance. As a result, the number of cases of engagement increased.

The results of the number of engagement activities in relation to the Transitional Long-term Benefit Adjustment Fund which is managed under the same strategy were the same.

#### Total number of cases of engagement From April 2018 to March 2019



\*The standard for counting the number of cases of engagement varies from asset manager to asset manager.

**Number of cases of engagement: Share by dialogue item**  
From April 2018 to March 2019



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1

Matters which the Association considers important in relation to the exercise of voting right

### **(1) Compliance with the Association's Guidelines for exercising shareholders' voting rights (foreign equities)**

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It was learned that at all asset managers entrusted with foreign stock investment by the Association exercise voting rights in accordance with account criteria reflecting the Guidelines on Foreign Equities.

The Association will continue to seek asset managers' exercise of voting rights in compliance with the Guidelines on Foreign Equities.

### **(2) Exercise of voting rights suited to the circumstances of companies**

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The Association observed cases in which asset managers conducting excellent initiatives exercised voting rights in consideration of the contents of dialogue with companies based on sufficient understanding of the purpose of the Guidelines for Foreign Equities (see Case (A) below).

It was learned that when exercising voting rights in ways deviating from the principles of the account criteria, for example by reflecting the contents of engagement, some asset managers make judgement separately through a committee, etc. This means that they are engaging in the excellent initiative of managing conflicts of interest by making decisions through a collegiate body while seeking to exercise voting rights in ways suited to the circumstances of investee companies. In addition, it was learned that some asset managers using an external service for the exercise of voting rights are implementing the excellent initiative of periodically examining service providers' advice-providing capability in order to receive appropriate advice that leads to an exercise of voting rights suited to the circumstances of investee companies.

In order to ensure appropriate judgment suited to the circumstances of companies, the Association has indicated the Guidelines on Foreign Equities and entrusts asset managers to make specific judgment on exercising voting rights.

The Association will continue requiring asset managers to exercise voting rights based on appropriate judgement suited to the circumstances of companies after sufficiently understanding the purpose of the Guidelines for Foreign Equities, instead of mechanically applying the Guidelines for Foreign Equities to the exercise of voting rights.

Cases	Provisions of Guidelines for Exercise of Shareholders' Voting Rights (Foreign Equities)/Response of asset managers	
(A)	Provisions of Guidelines	With respect to directors' compensation, we make positive decisions for a compensation scheme linked to medium- to long-term corporate performance (...) Compensation levels are judged based on, among other factors, whether they are adequately balanced with corporate profits and reasonable when compared with competitors.
	Response of asset managers	Asset Manager A confirmed that Company A understands the dilution level and the characteristics of the plan and meets the expected level within the relevant industry under a revised proposal related to the stock compensation system. Asset Manager A also confirmed that most of the personnel eligible for the stock compensation system are ordinary employees, rather than top managers, and voted for the proposal based on the judgment that it was desirable from the viewpoint of ensuring consistency between the incentive for a broad range of employees and an increase in shareholder value.

### (3) Exercise of voting rights and engagement in an integrated manner

It was learned that almost all asset managers entrusted with foreign stock investment by the Association implement the exercise of voting rights and engagement in an integrated manner (see Cases (A) and (B) below).

Regarding some asset managers that outsource investment management to other organizations, the Association observed cases in which the asset managers changed their process so as to exercise voting rights and engagement in an integrated manner (formerly, decisions on exercising voting rights were made by an asset manager itself, while engagement was conducted by an organization to which engagement activity was outsourced, but the process was changed to exercise the voting rights by reflecting the judgment of the organization to which engagement activity was outsourced).

The Association expects investee companies to be managed in a way that contributes to long-term shareholder value and believes that if shareholder value is not likely to increase, it is necessary to call for management needed for enhancing shareholder value. In doing so, the Association believes that instead of unilaterally exercising voting rights, asset managers should share the recognition of problems and other issues with the companies through various means, including explaining the views underlying their judgement on the exercise of voting rights.

## Exercise of Voting Rights and Initiatives (Foreign Equities)

The Association will require asset managers to conduct the exercise of voting rights and engagement in an integrated manner.

Cases	Response of asset managers
(A)	<p>Asset Manager A conducted dialogue with Company A in order to encourage it to correct the excessive level of director remuneration and improve the insufficient information disclosure concerning incentive-based remuneration.</p> <p>In addition to reducing the level of director remuneration, Company A for the first time showed the numerical level of achievement with respect to each evaluation item concerning short-term incentive-based remuneration. Asset Manager A voted for a proposal related to director remuneration that was later presented based on the judgement that there was no particular problem.</p>
(B)	<p>As a shareholder proposal demanding the disclosure of the employment status of prisoners was presented to Company B, against which a lawsuit related to the employment of prisoners within a supply chain had been filed, Asset Manager B checked with the company on its approach to this matter.</p> <p>Asset Manager B proposed that the company should disclose information indicating workers' work records and the remuneration level, but the company replied that further information disclosure was not necessary. Asset Manager B voted for the shareholder proposal based on the judgement that sufficient information disclosure had not been implemented.</p>

## 2 Specific examples

Regarding some asset managers, the Association observed cases of excellent initiatives in which a conference body or organization including outsiders was used to examine the validity of judgment concerning the criteria for exercising voting rights (see Cases (A) and (B) below).

As the Association regards the exercise of voting rights as an important means to sufficiently reflect the opinions of the Association as a shareholder in investee companies' management, it believes that asset managers should continue efforts to enhance the effectiveness of this activity.

The Association will require asset managers to enhance the effectiveness of this activity by developing and using a PDCA cycle in consideration of the viewpoints of other divisions and third-party entities.

Cases	Activities of asset managers
(A)	When revising the internal criteria for the exercise of voting rights, Asset Manager A makes revisions after receiving reports from a third-party committee of which the majority are outside members. Subsequently, Asset Manager A formulates the account criteria in a way that reflects the customer criteria. Concerning the criteria items for which there are differences between the internal and customer criteria, Asset Manager A examines validity through deliberations by a decision-making body concerning stewardship activities.
(B)	When revising the internal criteria for the exercise of voting rights, Asset Manager B makes revisions through a conference body including outside member and revises the account criteria if it has judged that the revision is necessary. Subsequently, Asset Manager B examines the validity of the revision of the criteria for the exercise of voting rights through a third-party committee of which the majority are outside members.

### 3 Results of the exercise of voting rights (foreign equities)

The Association exercises voting rights in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 15 asset managers entrusted with foreign stock investment (18 funds in total), with respect to a total of 8,190 companies which settled accounts between April 2018 and March 2019. The number of proposals for which voting rights were exercised was 65,525.

Of the 65,525 proposals, 8,080 (including 1,277 shareholder proposals) were voted against, translating into a vote-against rate of 12.3% (up 1.1 points from the previous year). The vote-against rate concerning company proposals was 11.0% (up 1.9 point).

The vote-against rate came to 13.0% (up 1.6 points) concerning proposals related to the election of directors, etc. and 12.5% (up 2.6 points) concerning proposals related to director remuneration, etc.

The results of the exercise of voting rights in relation to the Transitional Long-term Benefit Adjustment Fund which is managed under the same strategy were the same.



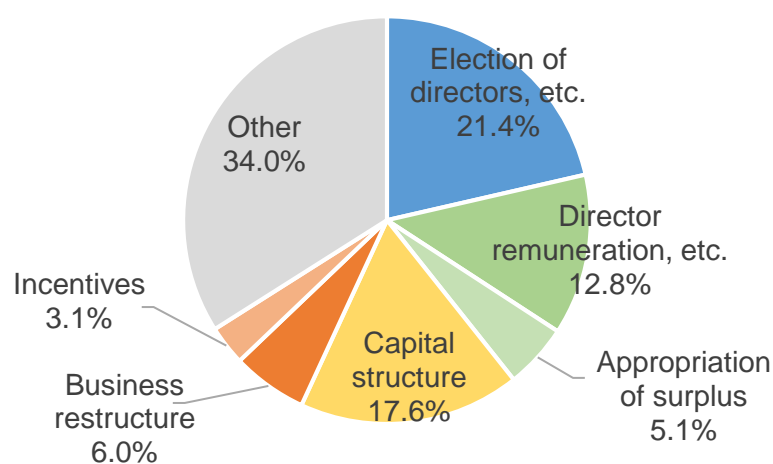
**Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)**  
**Companies with accounting settlement between April 2018 and March 2019**

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
<b>Total</b>	<b>65,525</b>	<b>100%</b>	<b>57,445</b>	<b>87.7%</b>	<b>8,080</b>	<b>12.3%</b>	<b>11.2%</b>
c.f. Company Proposal	62,084	94.7%	55,281	89.0%	6,803	11.0%	9.1%
c.f. Shareholder Proposal	3,441	5.3%	2,164	62.9%	1,277	37.1%	43.6%
<b>By Subject</b>	<b>65,525</b>	<b>100%</b>	<b>57,445</b>	<b>87.7%</b>	<b>8,080</b>	<b>12.3%</b>	<b>11.2%</b>
Proposal for election of directors, etc.	14,028	21.4%	12,203	87.0%	1,825	13.0%	11.4%
Director Remuneration, etc.	8,371	12.8%	7,325	87.5%	1,046	12.5%	9.9%
Appropriation of Surplus	3,359	5.1%	3,311	98.6%	48	1.4%	0.9%
Capital Structure	11,522	17.6%	9,672	83.9%	1,850	16.1%	15.0%
Takeover Defense Measures	490	0.7%	466	95.1%	24	4.9%	5.5%
Capital Increase or Reduction	3,950	6.0%	2,805	71%	1,145	29.0%	20.0%
Third Party Allotment of Shares	1,525	2.3%	1,447	94.9%	78	5.1%	11.0%
Acquisition of Own Shares	2,540	3.9%	2,409	94.8%	131	5.2%	6.2%
Business Restructure	3,919	6.0%	3,398	86.7%	521	13.3%	13.1%
Incentives Improvement for Executives	2,062	3.1%	1,447	70.2%	615	29.8%	20.2%
Other proposals	22,264	34.0%	20,089	90.2%	2,175	9.8%	10.6%

\*From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

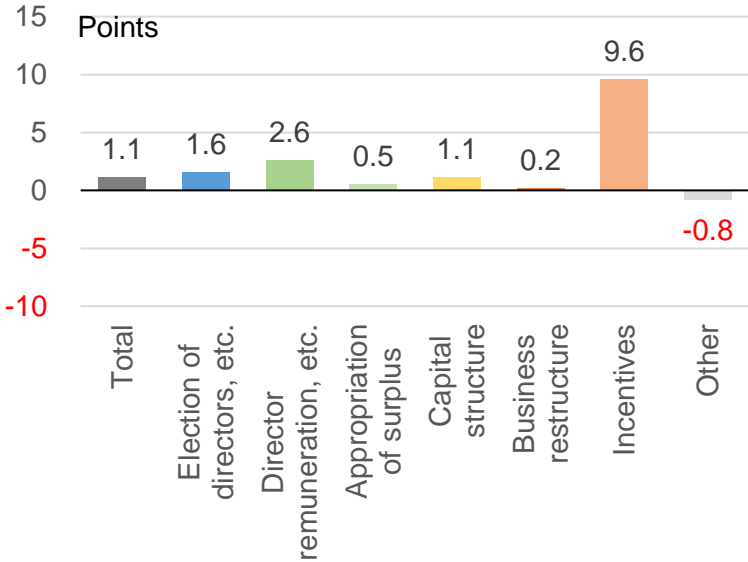
**Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)**

**Companies with accounting settlement between April 2018 and March 2019**



# Exercise of Voting Rights and Initiatives (Foreign Equities)

**Changes in the vote-against rate (compared with the previous year) (Employees' Pension Insurance Benefit Adjustment Fund)**  
**Companies with accounting settlement between April 2018 and March 2019**



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**4****Examples of the exercise by proposal subject (foreign equities)****(1) Proposals related to election of directors, etc. (board of directors/directors, etc.)**

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The vote-against rate rose from the previous year because some asset managers shifted to the approach of closely examining all proposals. Proposals were voted against in the following cases:

- ✓ The independence of the board of directors was not ensured.
- ✓ There was a problem with the independence of a candidate for director because of the presence of relationship of interest with the company.
- ✓ A candidate for director was concurrently serving as director at many companies.

**(2) Proposals related to director remuneration, etc.**

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The vote-against rate rose from the previous year because the number of proposals related to companies where directors with beneficiary rights were involved in decision-making on remuneration increased due to the adoption of Chinese stocks for the benchmark and also because some asset managers shifted to the approach of closely examining all proposals. Proposals were voted against in the following cases:

- ✓ The method of determining the remuneration amount was arbitrary and there were also problems with disclosure and the design of the remuneration system.

**(3) Proposals related to capital structure, business restructuring and an increase in incentives for executives**

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The vote-against rate rose from the previous year because some asset managers shifted to the approach of closely examining all proposals and because the number of proposals related to remuneration that were judged to have a low level of linkage with business performance increased.

**(4) Other proposals**

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The vote-against rate remained low as it did in the previous year.

**1** Matters which the Association considers important in relation to engagement activities

**(1) Engagement aimed at enhancing corporate value and sustainable growth**

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It was learned that almost all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth.

On the other hand, the Association observed some cases in which asset managers' understanding of the engagement required by the Association was insufficient (for example, one asset manager believes that there are not many cases in which seeking improvements through engagement is necessary because the asset manager makes selective investments in excellent companies).

The Association's policy is to continue requiring the asset managers to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of corporate values and sustainable growth of investee companies.

The Association will continue to seek further understanding of asset managers on its views concerning the purpose of engagement, and engagement initiatives.

## (2) Details of engagement

The Association believes that the most important factor that influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (for specific cases, see Cases (A) to (C) below).

The Association will continue requiring asset managers to conduct engagement activities leading to the improvement of corporate value.

Cases	Details of engagement	
(A)	Dialogue subject	<b>【Dialogue concerning corporate governance ("G" of ESG)】</b> Asset Manager A called on the remuneration committee of Investee Company A to simplify the complex incentive structure of the director remuneration system and to abolish the provision that benefits managers by allowing the extension of the deadline for the achievement of performance targets under long-term incentive plans.
	Result	The compensation committee of the company simplified the incentive structure and abolished the provision that allowed extension of the deadline for the achievement of performance targets under long-term incentive plans.
(B)	Dialogue subject	<b>【Dialogue concerning social ("S" of ESG) issues】</b> In response to criticism against forced labor and child labor used by Investee Company B in the supply chain, Asset Manager B checked on the company's recognition of and response to the situation and called on the company to take appropriate actions with respect to secondary and tertiary suppliers with which it does not do business directly and to develop a mechanism to effectively monitor those suppliers.
	Result	It was confirmed that Investee Company B had an appropriate understanding of the forced labor and child labor issues and was implementing countermeasures after improving the precision of its supply chain tracing and management and identifying problems in cooperation with various countries' governments.
(C)	Dialogue subject	<b>【Dialogue concerning environmental ("E" of ESG) issues】</b> Investee Company C, which is a comprehensive resource company, is facing the risk of coal resources turning into stranded assets because of the shift to a low-carbon society, and it is also emitting a large volume of greenhouse gases (GHG). Therefore, Asset Manager C conducted dialogue with the company concerning the need to disclose a GHG emission reduction plan that meets the level required under the Paris Agreement and the need to implement the plan.
	Result	It was confirmed that Investee Company C plans to raise profitability through quality improvement without increasing production volume with respect to the coal business and that it can concurrently reduce GHG emission volume and raise profitability. The company also announced a GHG emission reduction plan that meets the level required under the Paris Agreement.

**(3) Effectiveness of processes (e.g. PDCA cycle)**

It was learned that almost all asset managers examined the effects of engagement and judged the success or failure of engagement (see Cases (A) and (B) below).

The Association observed some cases in which asset managers were considering examining the effects of engagement activities and evaluating the contents of the activities (see Case (C) below).

As engagement is a "purposeful dialogue," the Association believes that it is necessary to examine whether or not the objective has been achieved through engagement. The Association also believes that the effectiveness of engagement should be checked in order to ensure sustainable engagement.

The Association will require asset managers to institutionally examine the effects of engagement.

Cases	Activities of asset managers
(A)	Asset Manager A is cooperating with a foreign asset management company concerning ESG activities and is evaluating the effects of engagement based on the ESG score and the information disclosure score calculated by the company.
(B)	Asset Manager B sets engagement targets with an achievement deadline of around three years and conducts evaluation and makes adjustments concerning the targets each quarter. Usually, the success of engagement is defined as achieving more than half of the targets related to an engagement theme over the period of around three years. The progress in achievement is graded on four scales.
(C)	In order to ensure company-wide sharing of information on engagement activities and maximize the effects of the activities, Asset Manager C is considering promoting the sharing of activities other than those related to investment assets, developing a database of activities and enhancing ESG evaluation and scoring of individual companies.

## 2 Specific examples (foreign equities)

The Association observed some cases in which asset managers were systematically using ESG information for research on companies' fundamentals and for engagement (see Case (A) below).

The Association also observed some cases in which asset managers were participating in policymaking authorities' study groups and committees and making lobbying efforts targeted at securities exchanges in order to improve the market environment (see Cases (B), (C) and (D) below).

The Association will continue requiring asset managers to exercise efforts to improve the effectiveness of engagement activities according to their respective approaches.

Cases	Activities of asset managers
(A)	At Asset Manager A, the ESG research team conducts detailed company analysis from the ESG viewpoint and selects engagement partners and dialogue themes based on the analysis results. Asset Manager A also uses various information obtained through engagement for analyzing and rating companies.
(B)	At Asset Manager B, the ESG research team played the leading role in conducting engagement with regulatory authorities, industry associations and securities exchanges. In countries where direct engagement was difficult as many investee companies were state-owned, Asset Manager B lobbied the asset management industry association to encourage companies to promote disclosure and dialogue.
(C)	Asset Manager C expressed opposition to a securities exchange's plan to develop a new framework for the listing of class shares based on the judgement that the new framework will not necessarily contribute to shareholders' interests from the viewpoint of governance.
(D)	As ESG-related indexes were providing incentives for companies to address ESG issues, Asset Manager D held discussions with an index provider about enhancement of the methodology of an environmental index. As a result, the index was improved in such a way that at the time of the integration of companies, the composition ratio reflects the companies' actual situations.

# Engagement and Initiatives (Foreign Equities)

## 3 Results of engagement activities (foreign equities)

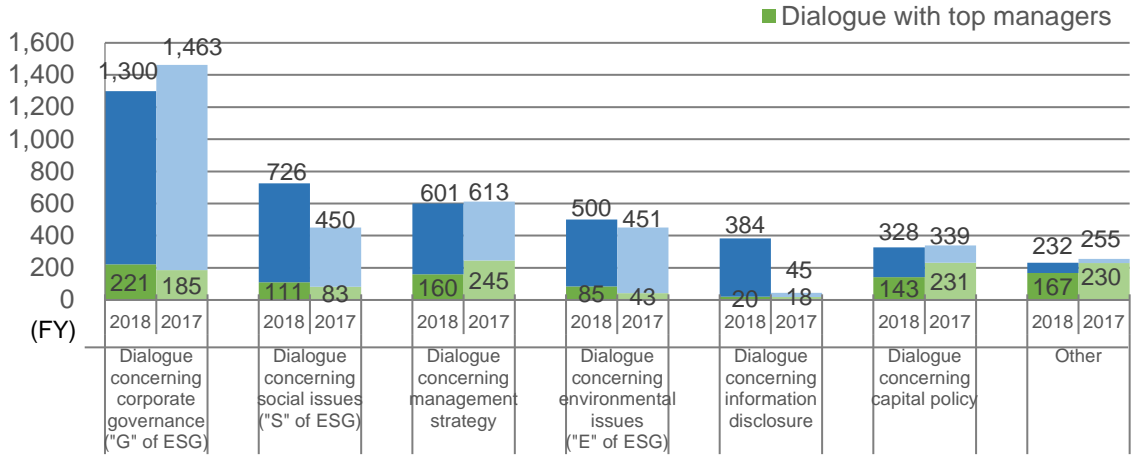
The Association implements engagement activities in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2018, the Association implemented engagement with a total of 1,560 companies through 15 asset managers (a total of 18 funds) to which foreign stock investment was entrusted. The number of cases of dialogue was 4,071 (up 12.6% from the previous year).

Some asset managers increased engagement staff or strengthened engagement related to environmental and social issues. As a result, the number of cases of engagement increased.

The results of the number of engagement activities in relation to the Transitional Long-term Benefit Adjustment Fund which is managed under the same strategy were the same.

### Total number of cases of engagement From April 2018 to March 2019

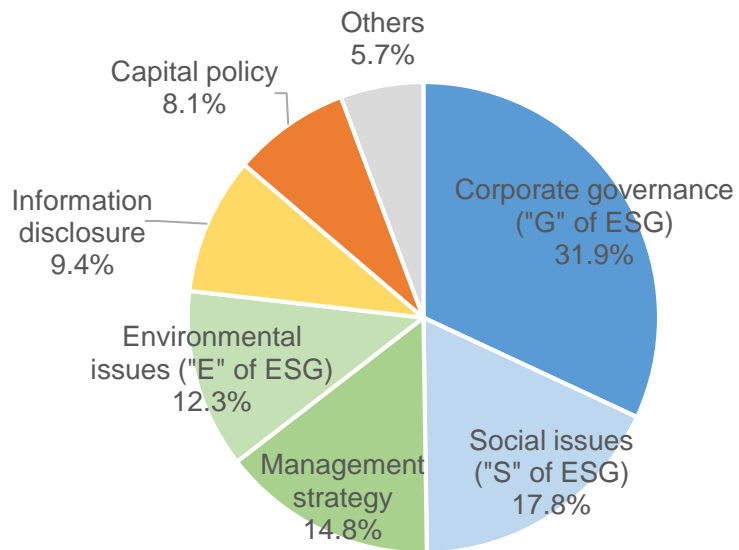


\*The standard for counting the number of cases of engagement varies from asset manager to asset manager.



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**Number of cases of engagement: Share by dialogue item**  
**From April 2018 to March 2019**



## 1 ESG investment initiative

### (1) Domestic equities

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As the Association invests pension funds over the long term, it is rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

The Association believes that it can simultaneously fulfill the fiduciary responsibility of increasing the value of stocks for the insured persons over the long term and the social responsibility as a public pension fund by seeking to increase the investment return through the sustainable growth of investee companies and the enhancement of shareholder value and by encouraging efforts to resolve social challenges, such as environmental, human rights and employment issues.

Most of the active funds adopted by the Association take into consideration ESG elements in the investment process.

The Association started investing in ESG funds adopted with the aim of earning excess return from the viewpoints of ESG (hereinafter referred to as an "ESG fund") in 2010. Subsequently, the Association gradually increased the number of adopted products and the amount of investments. As of the end of December 2019, the Association was entrusting ESG investment through four products with a combined market capitalization of 161.5 billion yen (approximately 3% of the outstanding balance of domestic stocks in the Association's portfolio).

Under the Manager Registration System concerning domestic equities, which started in January 2020, the Association has indicated its interest in ESG-focused strategy and is asking asset managers to be registered.

### (2) Domestic bonds

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In 2019, the Association started investing in ESG bonds as part of in-house investment.

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## 2 Approach to ESG investment (domestic equities)

Of the ESG-related four products adopted by the Association, three fall into the ESG integration category and one falls into the engagement category.

ESG integration refers to an investment approach that gives consideration to the ESG elements in the process of selecting stocks from the investment universe for possible inclusion in the portfolio. The examples of specific approaches to ESG investment are as follows:

- An asset manager uses an external organization to select stocks relatively highly evaluated in terms of ESG within each industry as components of the investment universe. Fund managers select stocks from the universe based on evaluation conducted from two viewpoints—the stock price level and whether the companies' ESG initiatives are likely to lead to earnings growth. The portfolio is comprised mainly of stocks highly evaluated by fund managers in terms of ESG.
- Analysts evaluate stocks under research in terms of their fundamentals and ESG performance. The ESG evaluation is a combination of basic evaluation based on third-party information obtained from external ESG evaluation organizations and analysts' evaluation based on qualitative information obtained through dialogue. A score table is prepared with scores given with respect to detailed items concerning the ESG elements. Fund managers integrate the fundamentals evaluation and the ESG evaluation and select stocks in such a way that the deviation value of each of the items concerning the ESG elements in the whole portfolio is higher than 50.
- An asset manager has adopted a smart beta strategy under which its funds track an index internally developed based on the combination of the ESG evaluation and the stock price evaluation. The asset manager uses an external organization to recognize companies whose ESG performance exceed a certain level as components of the index. Asset weight allocation is determined by adding to the basic weight (a uniform weight for all stocks: 60% of the overall weight) a weight calculated on the basis of an ESG adjusted stock price (40%), which is a stock price multiplied by a co-efficient reflecting the ESG evaluation.

## ESG Investment

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Engagement refers to objective-oriented constructive dialogue based on in-depth understanding of investee companies and their operating environment. The examples of specific approaches to ESG investment are as follows:

- After picking stocks with high quality in terms of ROIC (return on invested capital), an asset manager makes stock selection from among them in light of factors such as the room for improvement of competitiveness and the viability of the dialogue effect, aiming to increase corporate value through cooperative engagement from the view point of ESG.

The approach to ESG varies from fund to fund. However, through interviews with asset managers, the Association learned that they make efforts to identify the ESG elements concerning individual ESG funds and use ESG as a reference for stock selection. In this way, they are reducing the risk of corporate value being undermined and are promoting investment in companies whose corporate value is expected to increase in the medium to long term.

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### **3** Performance of ESG investment (domestic equities)

Asset managers are making investments through various approaches based not only on ESG evaluation but also on stock price evaluation with respect to individual ESG funds. The earning of excess return over the policy benchmark (the TOPIX index including dividends) differs from product to product and from year to year.

There is not yet an established consensus on whether the ESG approach leads to an excess return. The method of analyzing the relationship of ESG evaluation and engagement with investment performance varies across asset managers with respect to ESG funds adopted by the Association.

The Association plans to continue ESG initiatives such as evaluating the effectiveness and usefulness of ESG investment according to the investment horizon by cooperating with asset managers in checking how the ESG elements are contributing to the investment performance.

# Asset Managers' Recognition of Challenges

The Association learned that asset managers were recognizing the following challenges in the process of the fulfillment of the stewardship responsibilities.

The Association will continue requiring asset managers to conduct effective stewardship activity by continuing to address the following challenges. The Association also expects companies to move closer to the desired state of companies as shown in the Association's Corporate Governance Principles and actively conduct dialogue with asset managers.

**[Recognition of challenges by asset managers (domestic equities)]**

Entities	Challenges
Asset managers	Develop structures for stewardship activities
	Enhance the effectiveness of stewardship activity
	Improve the way of reporting to customers and beneficiaries on stewardship activity
	Measure the effects of increasing corporate value through engagement
	Strengthen ESG-related dialogue and initiatives
Investee companies	The commitment to correcting problems and conducting initiatives varies from company to company.
	It is difficult to obtain opportunities for a face-to-face interview with the top management.
	Some companies are focusing on the choice between shareholder return and growth while others are merely reforming governance as a matter of formality.
	As the initiative to improve the ESG rating is lacking in focus, it may become a matter of formality.

**[Recognition of challenges by asset managers (foreign equities)]**

Entities	Challenges
Asset managers	Enhance the effectiveness of stewardship activity
	Expand stewardship activity other than the exercise of voting rights
	Measure the effects of increasing corporate value through engagement
	Strengthen ESG-related dialogue and initiatives
Investee companies	Among small and mid-cap stocks, the speed of information disclosure varies from stock to stock.

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## Future Initiatives

The Association will continue to actively conduct stewardship activity in order to simultaneously fulfill the fiduciary and social responsibilities.

### **1 Implementation of effective monitoring of asset managers**

The Association will continue to make sure that asset managers' stewardship activity is consistent with the Association's policy and will conduct monitoring with emphasis placed on the "quality" of initiatives in terms of whether asset managers are implementing engagement with investee companies and are exercising voting rights in an effective manner and whether they are encouraging the companies to ensure effective corporate governance.

### **2 Dialogue with asset managers and accumulation of knowledge within the Association**

From the viewpoint of continuously enhancing the effectiveness of stewardship activity, the Association conducts dialogue with asset managers about matters of priority and accumulates knowledge concerning stewardship activity.

### **3 Consideration of expansion of the scope of assets covered by stewardship activities and promotion of investment taking into consideration non-financial factors**

From the viewpoint of fulfilling the stewardship responsibilities, the Association will consider expanding the scope of assets covered by stewardship activities in light of factors such as governmental actions. From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG elements, in addition to financial factors.

### **4 Revision of the corporate governance principles, etc.**

The Association will revise the Corporate Governance Principles of Pension Fund Association for Local Government Officials, the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) and the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation.



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## **5 Collaboration with other public pension funds, etc.**

The Association will make appropriate judgment on matters related to dialogue with investee companies and stewardship activity. As part of its efforts to enhance the effectiveness and efficiency of stewardship activity, the Association will also exchange opinions with its member associations and other public pension funds, among other activities.

**1** Policy concerning stewardship activity**(1) Basic Policy on Funds (established on October 1, 2015)**

## 3. Actions to fulfill the stewardship responsibilities

Shareholder voting rights shall be exercised so that corporations manage business operations in ways that will maximize the interests of shareholders over the long term.

If the Association individually directs exercise of voting rights, it shall give instructions so that entrusted institutions will exercise them in accordance with the direction. In the case of not individually directing exercise of voting rights, the Association shall have entrusted institutions exercise voting rights in accordance with the Guidelines for Exercising Shareholders' Voting Rights established by the Association in line with the intent of the Corporate Governance Principles established by the Association. Also, the Association shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

In doing so, based on the Principles for Responsible Institutional Investors «Japan's Stewardship Code» (February 26, 2014, by the Council of Experts Concerning the Japanese Version of the Stewardship Code) and Japan's Corporate Governance Code (June 1, 2015, by Tokyo Stock Exchange, Inc.), the Association shall review its Corporate Governance Principles, the Guideline for Exercising Shareholders' Voting Rights, and the like, as necessary, and take actions in line with the basic principles for performing stewardship responsibilities (meaning the responsibilities of institutional investors to enhance the mid- and long-term investment return for their clients and beneficiaries by enhancing and fostering Japanese investee companies' corporate value and sustainable growth through constructive engagement or other means based on in-depth knowledge of the companies, and their business environment).

Any review of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights shall be deliberated at the Committee and the status of stewardship activities shall be reported to the Committee in a timely manner.

Furthermore, in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities, the Association shall consider exchanging opinions with other implementing organizations, other administration and investment organizations (the Government Pension Investment Fund, the Federation of National Public Service Personnel Mutual Aid Associations and the Promotion and Mutual Aid Corporation for Private Schools of Japan) and the like as well as having a forum for that as necessary.

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## **(2) Corporate Governance Principles (established on April 1, 2004)**

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### (1) Basic perspectives of the Association

The Association has a role of managing the Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund and Transitional Long-Term Benefit Adjustment Fund under the pension fund scheme for local government officials and, like any other public pension fund, is considered to have the fiduciary responsibility that consists of the duty of loyalty and the duty of care.

The Association holds equity for no other purpose than to increase the value of its assets over the long term to contribute to the interests of the Association members. Therefore, the Association, like many other shareholders, invests in shares of companies whose values are expected to increase over the long term, expecting those companies to be managed in a way that contributes to long-term shareholder's value. If shareholder's value is not likely to increase, the Association will call for management needed for enhancing shareholder's value, in order to fulfill its fiduciary responsibility.

To this end, if shareholder's value of an investee company is not expected to increase sufficiently over the long term, the Association will take actions so that its opinions as a shareholder will be fully reflected in management of the company.

Furthermore, it is considered necessary for the Association to fulfill its social responsibility as a public pension fund, and it needs to actively work on the enhancement of corporate governance also in this context.

\*The full text is posted on the Association's website.

### **(3) Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) (established on April 1, 2004)**

#### 2. Operation

Given that stocks currently held by the Association are all managed by Entrusted Institutions, which are considered to have more opportunities to contact individual companies and thus are more capable of making suitable decisions than the Association based on the standing of the companies, each Entrusted Institution shall, in principle, make specific decisions on exercising voting rights in accordance with the intent of these Guidelines for the foreseeable future. Entrusted Institutions shall exercise voting rights with respect to investee companies suited to the circumstances of the companies after understanding the purpose of the Guidelines and considering the details of engagement, instead of exercising voting rights in a one-size-fits-all manner.

However, if an Entrusted Institution has a concern about possible conflicts of interest in exercising voting rights, the Entrusted Institution shall establish a policy to avoid such conflicts of interest. In addition, in cases in which the Association entrusts stock lending transactions to an Entrusted Institution, the Entrusted Institution shall manage the number of shares that can be lent so that the voting rights will be secured to a certain extent.

If the Association determines that voting in a unified manner is required, it will provide Entrusted Institutions with specific instructions on exercising voting rights to individual companies.

The Association shall request Entrusted Institutions to report on their corporate governance-related actions, such as the status of exercising voting rights, which the Association will leverage when providing instructions for Entrusted Institutions and consider when evaluating the Entrusted Institutions.

The Association believes that it is necessary to enhance the transparency of business execution by companies. Therefore, the Association requests that each company actively disclose information and engage in dialogues with shareholders and investors and expects Entrusted Institutions to take advantage of such opportunities to make decisions appropriate for each company. In addition, when exercising voting rights on proposals for electing directors that serve important roles in the oversight and execution of business management, the structure of the board of directors and their attitude toward corporate earnings, capital efficiency, social responsibility, operation of the general meeting of shareholders, information disclosure, and the like shall be considered in a comprehensive manner.

The Association expects investee companies to be managed in a way that contributes to long-term shareholder value and Entrusted Institutions should call for management needed for enhancing shareholder value. In doing so, instead of unilaterally exercising voting rights, Entrusted Institutions should share the recognition of problems and other issues with the companies through various means, including explaining the views underlying their judgement on the exercise of voting rights before or after the exercise of voting rights and conduct the exercise of voting rights and engagement in an integrated manner (engagement with companies before general meetings of shareholders and companies' feedback concerning the results of the exercise of voting rights).

As the exercise of voting rights is an important means to sufficiently reflect the opinions of the Association as a shareholder in investee companies' management, Entrusted Institutions shall continue efforts to enhance the effectiveness of this activity. To this end, Entrusted Institutions should enhance the effectiveness of this activity in relation to the exercise of voting rights by developing and using a PDCA cycle in consideration of the viewpoints of other divisions and third-party entities.

In principle, abstentions or carte blanche shall not be used when exercising voting rights, since it is desirable to clarify decisions in terms of fiduciary responsibility and they make no effective change in the legal effect.

The non-exercise of voting rights shall not be taken as a general rule.

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## (4) Signed up to Japan's Stewardship Code\*

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The Pension Fund Association for Local Government Officials (the "Association") hereby announces its sign-up to principles stipulated in Japan's Stewardship Code (revised on May 29, 2017).

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

- The Association is required to fulfill its "fiduciary duty to the insured" and "social responsibility as a public pension fund." In this connection, as the means to seek medium- to long-term enhancement of enterprise values and sustainable growth of investee companies, the Association is required to proactively commit to effective stewardship activities, including exercise of voting rights, engagement and ESG investment.
- To this end, considering the large scale of the Association's investment assets widely covering the entire market, it is necessary to promote sustainable and stable growth of the entire market so as to ensure return which would be needed in the long term.
- In addition, the Association entrusts investment management institutions to make investments in equity of individual companies. The Association believes that conducting the stewardship activities through these investment management institutions is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.
- Thus, the Association formulated the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" in 2004. The investment management institutions are expressly bound under the agreements with the Association to engage in stewardship activities in compliance with these policies.
- The Association will continue monitoring the stewardship activities of the investment management institutions so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts.

Principle 2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

- The Association makes equity investment in individual companies through the investment management institutions. The Association exercises voting rights through these institutions, and does not directly exercise them.
- The Association formulates and publicizes the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)," containing a policy on managing conflicts of interest in the exercise of voting rights by the investment management institutions.
- The Association monitors the investment management institutions, by requiring reports and hearings, to ensure that proper governance structures are in place and conflicts of interest are avoided in an appropriate way.

Principle 3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

- The Association makes equity investment in individual companies through the investment management institutions. In order to appropriately meet its stewardship responsibilities, the Association requires the investment management institutions to grasp the business conditions of investees in an accurate way and performs monitoring on the status on a periodical basis.

Principle 4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

- The Association grasps the status of engagements with investee companies by the investment management institutions by monitoring their effectiveness.
- The Association will continue requiring the investment management institutions to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of enterprise values and sustainable growth of investee companies.

Principle 5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not consist only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

- In order to enhance enterprise values and sustainable growth of investee companies in a medium- to long-term, the Association has formulated the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)," which sets the policy on the exercise of voting rights. Under these guidelines, the Association has the investment management institutions exercise the voting rights in relation to individual proposals.
- The Association requires the investment management institutions to disclose the results of exercise of the voting rights for each investee and proposal, and also requires institutions that do not disclose such information to explain the reasons for the non-disclosure.
- The Association grasps the status of exercise of voting rights by the investment management institutions by monitoring their compliance with the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)." In addition, the Association summarizes and aggregates the results of exercise of voting rights by major categories of proposals and publicizes them.

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Principle 6. Institutional investors, in principle, should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

- The Association makes reports on its stewardship activities on annual reports on investment results (Review of Operations) and public relations magazines for the related associations. In addition, the Association also publicizes annual reports on stewardship activities which are available on its website.
- The "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" are also available on the website.

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

- The Association will periodically review the implementation of the principles set out in the code, and will make further efforts to ensure appropriate stewardship activities in the future.
- To this end, the Association will develop the structures and human resources for stewardship activities. The Association will also instruct its investment management institutions to develop their abilities for appropriate decision-making in relation to the stewardship activities and to make efforts and improvement for more effective stewardship activities.

\* Established on May 30, 2014 and revised on November 30 2017.

**2 Chronology of the Association's stewardship activity**

2002	May	Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	June	Made revisions so as to require asset managers to exercise voting rights based on discretionary investment contracts.
2004	April	Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed asset managers to exercise voting rights in line with the Guidelines.
2005	June	Announced the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."
2006	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Requested the establishment of the outside director post</li> <li>• Specified the definition of antisocial acts</li> <li>• Established the takeover defensive measure item</li> </ul>
2007	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Tolerated non-exercise of voting rights related to companies' own shares and shares of parent companies with the risk of conflict of interest.</li> </ul>
2008	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Added appropriation of surplus to the scope of factors that should be considered in relation to proposals for the election of directors.</li> </ul>
2009	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Incorporated the viewpoint of undervalued dividends into appropriation of surplus.</li> <li>• Requested that shareholders' proposals be as closely examined as companies' proposals are.</li> <li>• Clarified the criteria for antisocial acts.</li> </ul> Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> <li>• Added non-support for indefinite extension of the period of consideration by takeover targets.</li> </ul>
2010	February	Started entrusted investment in ESG funds concerning domestic stocks.
	March	Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> <li>• Made an explicit reference to the independence of third-party committees.</li> </ul>



2011	March	<p>Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials."</p> <ul style="list-style-type: none"> <li>• Unified wordings and clarified the contents.</li> </ul> <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> <li>• Shifted to case-by-case judgment concerning proposals for the election of special directors.</li> <li>• Adopted case-by-case judgment concerning stock options whose exercise price is lower than the market price.</li> </ul> <p>Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."</p> <ul style="list-style-type: none"> <li>• Decided that when the requirements for the initiation of takeover defense measures are clear and leave no room for discretion, the measures may be voted for even if importance is not attached to the judgment of independent outside persons.</li> </ul>
2013	March	<p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> <li>• Requested that consideration be given to the attendance rate, etc. in the re-election of outside directors and outside auditors.</li> </ul>
2014	May	<p>Signed up to Japan's Stewardship Code.</p> <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> <li>• Added descriptions corresponding to the footnotes to Principle 2 (prevention of conflicts of interest) and Principle 5 (voting rights related to stock lending) of Japan's Stewardship Code.</li> </ul> <p>Newly adopted one ESG fund concerning domestic stocks.</p>
2015	March	<p>Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials."</p> <ul style="list-style-type: none"> <li>• Added descriptions concerning the use of independent outside directors and directors who are not executive directors.</li> <li>• Added descriptions concerning requests for corporate management teams to disclose information, including non-financial information.</li> <li>• Added descriptions concerning requests for corporate management teams to conduct active dialogue with investors.</li> </ul> <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> <li>• Requested that consideration be given to the situation of concurrent assumption of executive posts at other companies at the time of re-election of outside directors and outside auditors.</li> <li>• Decided that negative judgment be made concerning takeover defense measures in principle.</li> </ul>
	October	<p>Established the "Administration and Investment Policy" and the "Basic Policy" in association with the unification of pension systems.</p> <ul style="list-style-type: none"> <li>• Specified measures to fulfill the stewardship responsibilities.</li> </ul>
	December	<p>Newly adopted two ESG funds concerning domestic stocks.</p>

# Reference Materials

2016	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Changed the name to the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) and unified wordings in association with the establishment of Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities).</li> </ul>
	April	Established the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities). Instructed asset managers to exercise voting rights in line with the Guidelines.
2017	November	Signed up to Japan's Stewardship Code (Revised Version)
2019	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." <ul style="list-style-type: none"> <li>• Added some items to the scope of the roles and functions of the board of directors.</li> <li>• Added a provision concerning the required number of independent outside directors.</li> <li>• Created a new section called "Establishment of advisory committees."</li> <li>• Cited gender and international experience as specific examples of diversity.</li> <li>• Cited specific examples of the appropriate qualifications of auditors.</li> </ul> Revised the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities and Foreign Equities). <ul style="list-style-type: none"> <li>• Prescribed the requirement for an exercise of voting rights in accordance with the circumstances of companies.</li> <li>• Prescribed the requirement for an integrated implementation of the exercise of voting rights and engagement.</li> <li>• Prescribed the requirement for a PDCA cycle of the exercise of voting rights.</li> </ul>
	September	Started investing in ESG bonds as part of in-house investment in domestic bonds.

## 3

## Reporting items concerning stewardship activity in FY2019 (domestic equities)

No.	Description of report
<b>【Stewardship activities in general】</b>	
Q1	Attach here a digital file of (1) your statements of intent to follow Japan's Stewardship Code and policy for stewardship activity and (2) your self-evaluation of stewardship activity. *If there is any change from the previous year or any change which you are considering making in the future with respect to the statements of intent and policy, describe it and explain the reason. If there are principles or guidelines related to Japan's Stewardship Code with which you are not complying, (3) specify them and (4) explain the reason for non-compliance.
Q2	Describe your systems for the fulfillment of the stewardship responsibilities (the names, number of staff members, average years of experience and roles regarding (1) the division or section dedicated to stewardship activity, (2) the division or section comprised of analysts, (3) the division responsible for investment). Also describe specifically the overview of (4) the systems, including any organization or conference body responsible for the supervisory function.
Q3	Describe specifically your policy for and process of managing conflicts of interest in relation to stewardship activity.
Q4	If there are challenges recognized by you in relation to the fulfillment of the stewardship responsibilities, cite them.
Q5	Submit proposals, if any, in relation to the Association's stewardship activity.
<b>【Exercise of voting rights】</b>	
Q6	Fill in your company name, information concerning your fund, the number of investee companies related to the exercise of voting rights and the results of the exercise of voting rights. State your opinions concerning factors that caused changes from the same period of the previous year.
Q7	Attach here a digital file of your most recent guidelines for exercising voting rights. If there is any internal regulation other than the guidelines, attach its digital file as well.
Q8	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria").
Q9	(1) Describe the process of your most recent exercise of voting rights. Explain the processes of applying the account criteria to individual proposals and reflecting the results of engagement in the exercise of voting rights from the viewpoints of complying with the Association's Guidelines for Exercising Shareholders' Voting Rights (the Association's Guidelines) and exercising voting rights in accordance with the circumstances of companies (in a non-mechanical manner). Also describe (2) self-evaluation concerning the process of exercise of voting rights and (3) matters for future review. ※Describe specifically changes from the previous year and the reasons for the changes so that the background to the changes and the perception of challenges become clear.
Q10	If you use an external service for the exercise of voting rights, specify (1) the name of the service provider, (2) the contents of the service, and (3) the reason for the use. (4) If you receive advice related to the exercise of voting rights concerning individual proposals, describe the method of examining the contents of advice.
Q11	If there are cases in which you exercised voting rights in a way deviating from the Association's Guidelines in light of your engagement with companies, explain the outlines of up to five cases.
Q12	Describe specifically the implementation of PDCA regarding the examination of the validity of proposals for and the results of the exercise of voting rights in the current fiscal year ((1) your policy for the examination of the validity of proposals for and the results of the exercise of voting rights in the current fiscal year, (2) specific matters for implementation in the current fiscal year based on the policy, (3) review and self-evaluation regarding items of implementation in the current fiscal year, and (4) matters for future review). *Give descriptions that make clear any division, section or organization involved in PDCA (if any such division, section or organization involves outsiders, make a statement to that effect).
Q13	Describe specifically the implementation of PDCA regarding the examination and improvement of the account criteria in the current fiscal year ((1) your policy for the examination and improvement of the account criteria in the current fiscal year, (2) specific matters for implementation in the current fiscal year based on the policy, (3) review and self-evaluation regarding items of implementation in the current fiscal year, and (4) matters for future review). *Give descriptions that make clear any division, section or organization involved in PDCA (if any such division, section or organization involves outsiders, make a statement to that effect).
Q14	Describe up to five specific examples of integrated implementation of the exercise of voting rights and engagement (engagement before a general shareholders' meeting and feedback of the results of the exercise of voting rights) in the current fiscal year.
<b>【Treatment of companies that conducted antisocial activity】</b>	
Q15	(1) Describe specifically how you identify companies which conducted antisocial activity. (2) Also describe specifically the criteria for recognizing antisocial activity.
Q16	Describe how you deal with investee companies engaging in antisocial activity. *Enumerate all such cases.
<b>【Engagement】</b>	
Q17	Describe specifically (1) your objective of and policy for engagement. Also describe (2) your approach (policy) to engagement with companies ranked low in terms of market capitalization, companies which are reluctant to conduct dialogue and companies which have no awareness about capital markets, and (3) your policy for and method of using ESG information. Describe (4) your approach (policy) to engagement concerning cross-shareholdings and (5) existing and potential challenges for engagement related to cross-shareholdings. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe (6) the efforts.
Q18	Describe specifically (1) the process of engagement with individual companies. Also describe (2) your self-evaluation regarding the process of engagement and (3) matters for future review. *Regarding changes from the previous year and the reason for the changes, give specific descriptions that make clear the background to the changes and the perception of challenges.
Q19	If you use an external engagement service, describe (1) the name of the service provider, (2) the contents of the service, and (3) the reason for the use.
Q20	Concerning your engagement with individual companies, describe specifically (1) the method of examining the effects of engagement, (2) challenges related to the method of examining the effects, and (3) matters for future review from the viewpoint of the challenges (the examination referred to herein includes not only quantitative examination regarding performance but also qualitative examination).
Q21	Describe up to five specific cases of engagement conducted this year with respect to relevant funds (you should include at least one case each with respect to cross-shareholdings and ESG). Regarding dialogue with companies, describe dialogue scenes, partners, contents, companies' response, and your handling of the dialogue. Also describe the results of the above engagement activities and your self-evaluation of the results.
Q22	Specify the number of companies with which you conducted engagement this year and the number of major cases of engagement with respect to relevant funds. State your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of engagement should not include questionnaire surveys, seminars, or large conferences).
Q23	If there is anything that is particularly noteworthy about your engagement with respect to relevant funds, describe it.

**4** Reporting items concerning stewardship activity in FY2019 (foreign equities)

No.	Description of report
<b>[Stewardship activities in general]</b>	
Q1	Describe your (1) policies, systems, etc. for the fulfillment of the stewardship responsibilities (the names, number of staff members, average years of experience and roles regarding (2) the division or section dedicated to stewardship activity, (3) the division or section comprised of analysts, (4) the division responsible for investment). Also describe specifically the overview of (5) the systems, including any organization or conference body responsible for the supervisory function. * Attach a copy of your documented policy referred to in (1), if any.
Q2	Describe specifically your policy for and process of managing conflicts of interest in relation to stewardship activity.
Q3	If there are challenges recognized by you in relation to the fulfillment of the stewardship responsibilities, cite them.
Q4	Submit proposals, if any, in relation to the Association's stewardship activity.
<b>[Exercise of voting rights]</b>	
Q5	Fill in your company name, information concerning your fund, the number of investee companies related to the exercise of voting rights and the results of the exercise of voting rights. State your opinions concerning factors that caused changes from the same period of the previous year.
Q6	Attach here a digital file of your most recent guidelines for exercising voting rights. If there is any internal regulation other than the guidelines, attach its digital file as well.
Q7	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria").
Q8	(1) Describe the process of your exercise of voting rights. Explain the processes of applying the account criteria to individual proposals and reflecting the results of engagement in the exercise of voting rights from the viewpoints of complying with the Association's Guidelines for Exercising Shareholders' Voting Rights (the "Association's Guidelines") and exercising voting rights in accordance with the circumstances of companies (in a non-mechanical manner). Also describe (2) self-evaluation concerning the process of exercise of voting rights and (3) matters for future review. * Describe specifically changes from the previous year and the reasons for the changes so that the background to the changes and the perception of challenges become clear.
Q9	If you use an external service for the exercise of voting rights, specify (1) the name of the service provider, (2) the contents of the service, and (3) the reason for the use. (4) If you receive advice related to the exercise of voting rights concerning individual proposals, describe the method of examining the contents of advice.
Q10	If there are cases in which you exercised voting rights in a way deviating from the Association's Guidelines in light of your engagement with companies, explain the outlines of up to five cases.
Q11	Describe specifically the implementation of PDCA regarding the examination of the validity of proposals for and the results of the exercise of voting rights in the current fiscal year ((1) your policy for the examination of the validity of proposals for and the results of the exercise of voting rights in the current fiscal year, (2) specific matters for implementation in the current fiscal year based on the policy, (3) review and self-evaluation regarding items of implementation in the current fiscal year, and (4) matters for future review). * Give descriptions that make clear any division, section or organization involved in PDCA (if any such division, section or organization involves outsiders, make a statement to that effect).
Q12	Describe specifically the implementation of PDCA regarding the examination and improvement of the account criteria in the current fiscal year ((1) your policy for the examination and improvement of the account criteria in the current fiscal year, (2) specific matters for implementation in the current fiscal year based on the policy, (3) review and self-evaluation regarding items of implementation in the current fiscal year, and (4) matters for future review). * Give descriptions that make clear any division, section or organization involved in PDCA (if any such division, section or organization involves outsiders, make a statement to that effect).
Q13	Describe up to five specific examples of integrated implementation of the exercise of voting rights and engagement (engagement before a general shareholders' meeting and feedback of the results of the exercise of voting rights) in the current fiscal year.
Q14	In relation to the accounts entrusted by the Association, if there are cases in which you did not exercise voting rights with respect to companies in countries within the scope of the exercise of voting rights, specify the names of the companies and explain the reasons for non-exercise. * Enumerate all such cases.
Q15	If you outsource investment management, describe the (1) structure, (2) process and (3) details of your monitoring of overall exercise of voting rights by the organization to which investment management was outsourced.
<b>[Treatment of companies that conducted antisocial activity]</b>	
Q16	(1) Describe specifically how you identify companies which conducted antisocial activity. (2) Also describe specifically the criteria for recognizing antisocial activity.
Q17	Describe how you deal with investee companies engaging in antisocial activity. * Enumerate all such cases.
<b>[Engagement]</b>	
Q18	Describe specifically (1) your objective of and policy for engagement. Also describe (2) your approach (policy) to engagement with companies ranked low in terms of market capitalization, companies which are reluctant to conduct dialogue and companies which have no awareness about capital markets, and (3) your policy for and method of using ESG information. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe (4) the efforts.
Q19	Describe specifically (1) the process of engagement with individual companies. Also describe (2) your self-evaluation regarding the process of engagement and (3) matters for future review. * Regarding changes from the previous year and the reason for the changes, give specific descriptions that make clear the background to the changes and the perception of challenges.
Q20	If you use an external engagement service, describe (1) the name of the service provider, (2) the contents of the service, and (3) the reason for the use.
Q21	Concerning your engagement with individual companies, describe specifically (1) the method of examining the effects of engagement, (2) challenges related to the method of examining the effects, and (3) matters for future review from the viewpoint of the challenges (the examination referred to herein includes not only quantitative examination regarding performance but also qualitative examination).
Q22	Describe up to five specific cases of engagement conducted this year with respect to relevant funds (you should include at least one case each with respect to ESG). Regarding dialogue with companies, describe dialogue scenes, partners, contents, companies' response, and your handling of the dialogue. Also describe the results of the above engagement activities and your self-evaluation of the results.
Q23	Specify the number of companies with which you conducted engagement this year and the number of major cases of engagement with respect to relevant funds. State your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of engagement should not include questionnaire surveys, seminars, or large conferences).
Q24	If you outsource investment management, describe the (1) structure, (2) process and (3) details of your monitoring of the overall engagement activities by the organization to which the investment management was outsourced.
Q25	If there is anything that is particularly noteworthy about your engagement with respect to relevant funds, describe it.