
FY2020 Annual Stewardship Activity Report Summary

March 2021



地方公務員共済組合連合会
Pension Fund Association for Local Government Officials

The following is the summary of FY2020 Annual Stewardship Activity Report of the Pension Fund Association for Local Government Officials (the "Association").

1. Overview of stewardship activities by asset managers entrusted with stock investment

Stewardship activity conducted by the Association's asset managers shows continuous improvement, and the Association has confirmed the improved effectiveness of stewardship activity as some asset managers have begun to engage in new, excellent initiatives and distinctive initiatives.

(1) Exercise of voting rights

It was confirmed that most of the asset managers exercised voting rights in compliance with the matters which the Association considers important, while some of them are implementing new, excellent initiatives and distinctive initiatives.

- Compliance with the Association's guidelines
 - Some asset managers have established an excellent process of observing compliance, as divisions, sections, or committees other than those responsible for the exercise of voting rights examine compliance with those guidelines (domestic and foreign equities).
- Exercise of voting rights suited to the circumstances of companies
 - It was learned that when exercising voting rights in ways deviating from the principles of the account criteria (specific criteria for exercising voting rights related to accounts entrusted by the Association), some asset managers were implementing an excellent initiative of making judgement separately through a collegiate body such as a committee, etc. (domestic and foreign equities).
 - An asset manager was conducting an excellent initiative of seeking advice on proposals that may require the management of conflicts of interest from a proxy advisor that conducts engagement by itself, in addition to a proxy advisor of a general type (domestic equities).
 - An asset manager was conducting an excellent initiative to periodically examine proxy advisors' advice-providing ability and to provide feedback as necessary (domestic equities).
 - The Association also recognized a distinctive case of an asset manager using proxy advisers specialized in a specific market (foreign equities).
- Exercise of voting rights and engagement in an integrated manner

- It was learned that almost all asset managers implement the exercise of voting rights and engagement in an integrated manner (domestic and foreign equities).
- Specific examples relating to the exercise of voting rights
 - It was learned that most of the asset managers revised their respective account criteria for such purposes as requiring investee companies to enhance their governance (domestic and foreign equities).

(2) Engagement

It was confirmed that most of the asset managers implement engagement activities in compliance with the matters which the Association considers important, while some of them are implementing new, excellent initiatives and distinctive initiatives.

- Engagement aimed at enhancing corporate value and sustainable growth
 - It was learned that all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth of investee companies (domestic and foreign equities).
- Effectiveness of processes (e.g., PDCA cycle)
 - It was learned that most of the asset managers are conducting progress management and effect measurement of engagement in a systematic way (domestic and foreign equities).
 - For most of the asset managers, as a result of the measurement, engagement had effects such as the achievement of and progress towards the goals of engagement (domestic equities).
 - Some asset managers were conducting an excellent initiative aimed at a quantitative measurement of contribution of engagement to the improvement of corporate value (domestic equities).
 - The Association observed an excellent initiative of an asset manager conducting a survey of investee companies to measure the effect of engagement and utilize the survey results for future engagement (domestic equities).
 - The Association also recognized an excellent initiative of some asset managers identifying challenges through the measurement of the effect of engagement and revising its process of measurement based on the results of measurement (domestic equities).
 - In addition, an asset manager accumulated engagement-related data in order to conduct progress management and effect measurement with reference to a specific quantitative target (foreign equities).

- Specific examples of engagement
 - The Association observed efforts exercised by asset managers to enhance the effectiveness of engagement processes including: reducing cross-shareholdings through revising criteria for exercise of voting rights and using collaborative engagement, expressly positioning engagement as a part of the investment decision-making process, developing a methodology for quantitative examination of the effect of engagement, utilizing advanced initiatives of a foreign asset owner for their engagement activity, gaining deeper insight into the risk analysis for climate change and utilizing it for their engagement and receiving an audit to confirm the quality of engagement processes.

2. Overview of the Association's stewardship activity

The 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 stewardship activities.

In addition, the Association entrusts 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.

The major initiatives implemented by the Association in FY2020 are as follows:

(1) Revision to Signup to Japan's Stewardship Code

In connection with the announcement of the second revision of Japan's Stewardship Code in March 2020, the Association revised its Signup to Japan's Stewardship Code in September of the same year.

(2) ESG investment initiative

The Association newly added five ESG products as part of domestic equity investment in December 2020. The Association has adopted seven ESG products as of the end of December 2020, with market capitalization totaling 844.5 billion yen (approximately 13% of the outstanding balance of domestic stocks in the Association's portfolio).

3. Future initiatives of the Association

The Association will continue to engage in stewardship activity in a proactive way with a view to fulfilling its fiduciary responsibility and social responsibility.

The Association's future initiatives are as follows:

- (1) Effective monitoring of asset managers
- (2) Dialogue with asset managers and accumulation of knowledge within the Association
- (3) Consideration of expansion of the scope of assets covered by stewardship activities
- (4) Promotion of investment taking into consideration non-financial factors (including discussing support of TCFD[※])
- (5) Revision of the Corporate Governance Principles and guidelines
- (6) Collaboration with other organizations including pension funds

[※] TCFD: Task Force on Climate-related Financial Disclosures