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Pension Fund Association for Local Government Officials

Signup to Japan's Stewardship Code

The Pension Fund Association for Local Government Officials (the "Association") hereby announces its signup to principles stipulated in Japan's Stewardship Code (Second revised version dated March 24, 2020).

The Association will consider the principles that can be applied to assets other than listed domestic equities, from the standpoint of fulfilling its stewardship responsibility to enhance medium- to long-term investment returns for its beneficiaries by improving and fostering the corporate value and the sustainable growth of investee companies, and implement necessary initiatives to the extent possible.

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 corporate value and sustainable growth of investee companies, the Association is required to proactively commit to effective stewardship activities, including engagement based on in-depth knowledge of investee companies and their business environment and consideration of their sustainability (sustainability for the medium to long term including ESG factors) consistent with the investment management strategy, exercise of voting rights 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 and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)" in 2016. 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 require investment management institutions to clearly specify how they take the issues of sustainability into consideration in their policy, consistent with the investment management strategies of the respective institutions.

- 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)" and "Guidelines for Exercising Shareholders' Voting Rights (Foreign 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 corporate value and sustainable growth of investee companies.

- For engagement related to the issues of sustainability, the Association will require investment management institutions to consciously conduct engagement that is consistent with the investment management strategies of the respective institutions and that serves the abovementioned purposes.

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

- In order to enhance corporate value 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)" and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)," which set 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 will require the investment management institutions to disclose their voting rationale with respect to either a “for” or “against” vote that is considered important from the standpoint of engagement with investee companies when they disclose their voting records.

- The Association will require the investment management institutions using a proxy advisor to take into account its voting recommendation process and to disclose the name of the proxy advisor and the specific methods of using the service when they disclose their voting records.

- 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)" or "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)." In addition, the Association summarizes and aggregates the results of exercise of voting rights by major categories of proposals and publicizes them.

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," "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)" are also available on the website.

Principle 7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

- 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, based on in-depth knowledge of investee companies and their business environment and consideration of sustainability consistent with the investment management strategies of the respective institutions.

8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

- The Association will select service providers for institutional investors in relation to its stewardship activity after confirming the service provider's compliance with the Japan's Stewardship Code.

[DISCLAIMER]

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