

Annual Stewardship Activity Report FY2016



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

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1. Introduction

○ Overview of the Association's stewardship activity

The Pension Fund Association for Local Government Officials (the “Association”) believes that it is necessary to actively conduct stewardship activity from the viewpoints of “the fiduciary duty of increasing the value of its assets for members over the long term” and “the social responsibility as a public pension fund,” and it has been conducting stewardship activity, mainly exercise of voting rights, dialogue with companies (engagement), and ESG investment, for nearly 15 years.

Concerning all domestic stocks in which its funds are invested, the Association entrusts investment management to investment management organizations (hereinafter referred to as “investment managers”) from the viewpoint of making use of experts’ superior knowledge regarding financial markets and the economic environment. Concerning stewardship activity, too, the Association believes that on the whole, it can more effectively fulfill its stewardship responsibilities by entrusting investment managers, which have frequent contacts with individual companies and which possess deep knowledge regarding corporate management, to exercise voting rights and conduct engagement and by monitoring their activities, instead of implementing these activities itself.

Specifically, in April 2004, the Association established the “Corporate Governance Principles of Pension Fund Association for Local Government Officials” and the “Guidelines for Exercising Shareholders’ Voting Rights,” and in May 2014, it signed up to Japan’s Stewardship Code and also specified how it fulfills its stewardship responsibilities in the principles concerning funds. In consideration of these, investment managers implementing stewardship activity, the Association monitors their activities through reports and interviews.

1. Introduction

○ **Revision of the Guidelines for Exercising Shareholders' Voting Rights in FY2016, etc.**

On April 1, 2016, the Association established the “Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)” in order to expand the exercise of voting rights, which was previously limited to domestic stocks, to also include foreign stocks, because issues related to the exercise of voting rights concerning foreign stocks have been sorted out.

- ✓ Establishment of the “Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)” (April 1, 2016)
 - The Association will flexibly treat differences between individual countries' systems and customs by giving some room for interpretation of the provisions while maintaining the provisions of the “Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities).”
 - The “Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)” are applicable to the exercise of voting rights concerning stocks of foreign companies holding a general meeting of shareholders on or after July 1, 2016.
- ✓ Revision of the “Guidelines for Exercising Shareholders' Voting Rights (March 31, 2016)
 - Necessary revisions were made, including a change of the name of the guidelines to the “Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities).”

○ **Publication of activities through reports of investment results**

Since FY2015, the Association has been obligated to publish an annual report of investment results describing activities concerning the exercise of voting rights relating to stocks by organizations implementing the activities based on the Local Public Officers, etc. Mutual Aid Association Act. The Association describes its stewardship activity for the relevant year in the annual report and publishes it.

The stewardship activity in FY2014 is described in the Investment Results for FY2015, which was published on the Association's website on July 29, 2016.

1. Introduction

○ Monitoring of investment managers in FY2016

The Association receives reports concerning stewardship activity from and holds interviews with investment managers every year in order to monitor the appropriateness of their stewardship activity and gather information.

In July 2016, the Association sent “Questionnaires concerning Stewardship Activity” to 24 investment managers entrusted with domestic stock investment and held interviews with 13 of them with respect to stewardship activity from September 27 to 30, 2016, after closely examining their replies.

The major viewpoints of the monitoring of investment managers in FY2016 are as follows:

Exercise of shareholders’ voting rights

- ✓ Make sure that the exercise of voting rights is thoroughly in line with the Guidelines for Exercising Shareholders’ Voting Rights.
- ✓ Check the status of improvement in governance at investee companies through the exercise of voting rights.

Engagement

- ✓ Grasp the status of implementation of effective engagement (processes, systems and results) by investment managers

In the following pages, the Association’s stewardship activity in FY2015 identified through the monitoring in FY2016 is described.

2. Exercise of Voting Rights

○ Results of the exercise of voting rights

Between July 2015 and June 2016, regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights, through the 24 investment managers entrusted with domestic stock investment, with respect to a total of 14,639 companies which settled accounts between April 2015 and March 2016. The number of proposals concerning which voting rights were exercised was 57,617.

The Association voted against 12,677 of the 57,617 proposals (among which 1,577 were shareholder proposals), which translates into a vote-against rate of 22.0% (down 1.9 points from the previous year).

The vote-against rate came to 40.4% (down 7.9 points from the previous year) concerning proposals related to the board of directors/directors, 18.7% (up 0.6 points) concerning proposals related to the board of auditors/auditors, 11.0% (down 5.7 points) concerning proposals related to director remuneration, etc. and 4.3% (down 0.3 points) concerning proposals related to appropriation of surplus.

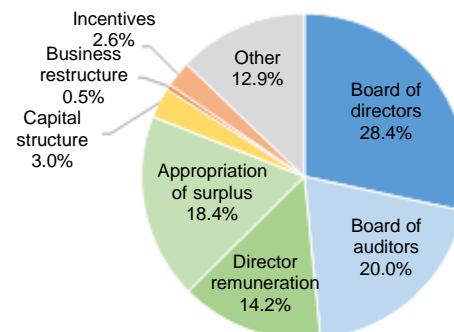
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund) Companies with accounting settlement between April 2015 and March 2016

Proposal	Total	Vote for		Vote against		Vote-against rate in the previous year	
		Composition	Rate	Rate	Rate		
Total	57,617	100%	44,940	78.0%	12,677	22.0%	23.9%
c.f. Shareholder Proposal	1,634	2.8%	57	3.5%	1,577	96.5%	97.9%
By Subject	57,617	100%	44,940	78.0%	12,677	22.0%	23.9%
Board of Directors/Directors	16,362	28.4%	9,748	59.6%	6,614	40.4%	48.3%
Board of Auditors/Auditors	11,526	20.0%	9,368	81.3%	2,158	18.7%	18.2%
Director Remuneration, etc.	8,179	14.2%	7,282	89.0%	897	11.0%	16.6%
Appropriation of Surplus	10,602	18.4%	10,146	95.7%	456	4.3%	4.6%
Capital Structure	1,740	3.0%	1,142	65.6%	598	34.4%	44.4%
Takeover Defense Measures	875	1.5%	307	35.1%	568	64.9%	62.4%
Capital Increase or Reduction	76	0.1%	73	96.1%	3	3.9%	3.3%
Third Party Allotment of Shares	20	0.0%	15	75.0%	5	25.0%	0.0%
Acquisition of Own Shares	47	0.1%	28	59.6%	19	40.4%	46.2%
Business Restructure	288	0.5%	282	97.9%	6	2.1%	0.3%
Incentives Improvement for Executives	1,508	2.6%	1,108	73.5%	400	26.5%	24.8%
Other	7,412	12.9%	5,864	79.1%	1,548	20.9%	18.6%

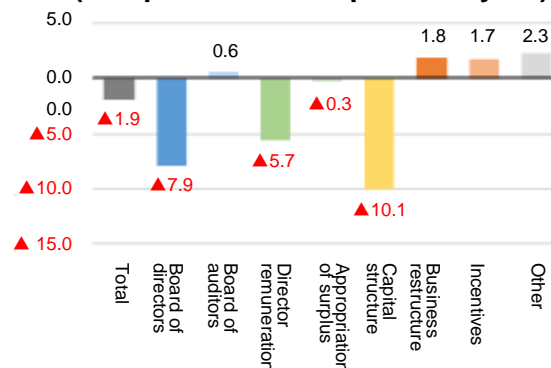
*Including the results of the exercise of voting rights before October 2005, when pension systems were unified into the Employees' Pension Insurance system.

*The results of the exercise of voting rights were the same with respect to the Transitional Long-term Benefits (TLTB) Adjustment Fund, which adopts the same products.

Share by proposal subject



Changes in the vote-against rate (compared with the previous year)



2. Exercise of Voting Rights

○ **Examples of the exercise by proposal subject (1)**

Proposals related to the board of directors/directors

Although the vote-against rate declined from the previous year for reasons such as the spread of moves to elect multiple outside directors, it still remained at a high level (40.4%).

[Major reasons for voting against]

- ✓ Board of directors not comprising multiple outside directors
- ✓ Election of an outside director who is considered to face an independence issue
- ✓ Increase of internal directors without sufficient explanations

Proposals related to the board of auditors/auditors

The vote-against rate remained almost the same as in the previous year as issues related to the appropriateness and independence of auditors remained.

[Major reasons for voting against]

- ✓ Election of an auditor with a low rate of attendance at meetings of the board of directors/board of auditors
- ✓ Election of an outside auditor considered to present an independence issue
- ✓ Decrease of auditors without sufficient explanations

Proposals related to director remuneration, etc.

The vote-against rate declined from the previous year again due to such factors as a decrease in proposals related to retirement allowance payment to outside directors and auditors who may undermine the supervisory function.

[Major reasons for voting against]

- ✓ Payment of retirement allowances to outside directors and auditors
- ✓ Payment of retirement allowances whose value was not disclosed

Proposals related to appropriation of surplus

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

[Major reasons for voting against]

- ✓ Appropriation of surplus by a company whose shareholder return, such as the payout ratio, is low

2. Exercise of Voting Rights

Proposal Subject	Company	Reason for Voting Against
<u>Proposals related to the board of directors/ directors</u>	1st sec. of the Tokyo Stock Exch. Machinery	<u>Board of directors not comprising multiple outside directors</u> Voted against the election of all directors because the board of directors did not comprise multiple independent outside directors.
	1st sec. of the Tokyo Stock Exch. Information & Communication	<u>Election of an outside director who is considered to present an independence issue</u> Voted against the proposal because the candidate for an outside director was a person coming from a major shareholder, which raised an independence issue.
	1st sec. of the Tokyo Stock Exch. Electric Appliances	<u>Increase of internal directors without sufficient explanations</u> Voted against the proposal because there was not a clear and rational reason for increasing the number of internal directors.
<u>Proposals related to the board of auditors/ auditors</u>	1st sec. of the Tokyo Stock Exch. Land Transportation	<u>Election of an auditor with a low rate of attendance at meetings of the board of directors/board of auditors</u> Voted against the proposal because the candidate for an outside auditor was not appropriate due to a low attendance rate.
	1st sec. of the Tokyo Stock Exch. Services	<u>Election of an outside auditor considered to present an independence issue</u> Voted against the proposal because the candidate was a person coming from a law firm which has concluded a contract with a relevant company, which raised an independence issue.
	1st sec. of the Tokyo Stock Exch. Retail Trade	<u>Decrease of auditors without sufficient explanations</u> Voted against the proposal because there was not a clear and rational reason for decreasing the number of outside auditors.
<u>Proposals related to director remuneration, etc.</u>	1st sec. of the Tokyo Stock Exch. Services	<u>Payment of retirement allowances to outside directors and auditors</u> Voted against the proposal because of the risk that the supervisory function would be undermined
	1st sec. of the Tokyo Stock Exch. Services	<u>Payment of retirement allowances whose value was not disclosed</u> Voted against the proposal because of the possibility that failure to disclose the value would undermine shareholder value.
<u>Proposals related to appropriation of surplus</u>	1st sec. of the Tokyo Stock Exch. Electric appliances	<u>Appropriation of surplus by a company whose shareholder return, such as the payout ratio, is low</u> Voted against the proposal because the payout ratio has stayed low for many years despite the absence of a rational reason.
	1st sec. of the Tokyo Stock Exch. Machinery	<u>Appropriation of surplus by a company whose shareholder return, such as the payout ratio, is low</u> Voted against the proposal because the payout ratio was too low compared with the level of retained earnings.

2. Exercise of Voting Rights

○ Examples of the exercise by proposal subject (2)

Proposals related to capital structure

The vote-against rate declined from the previous year, reflecting improvement in capital policy due to the establishment of the Corporate Governance Code. On the other hand, concerning proposals related to takeover defense measures, the vote-for rate based on the escape clause remained high although the Association's Guidelines stipulates that they should be voted against in principle.

[Major reasons for voting against]

- ✓ A takeover defense measure not considered to contribute to an increase in shareholder value
- ✓ A takeover defense measure considered to raise doubt about objective management
- ✓ Capital policy not considered to contribute to an increase in shareholder value

Proposals related to business restructure

The vote-against rate was low despite rising slightly from the previous year.

[Major reasons for voting against]

- ✓ A share exchange not considered to contribute to an increase in shareholder value
- ✓ A share exchange that may undermine shareholder value

Proposals related to incentives improvement for executives

The vote-against rate rose slightly from the previous year due to votes against proposals to introduce incentives that may undermine existing shareholders' interests.

[Major reasons for voting against]

- ✓ A stock option program that may cause significant dilution
- ✓ A stock option program that raises an appropriateness issue concerning persons to whom stock options are granted

Other proposals

The vote-against rate rose slightly from the previous year due to votes against proposals for revision of articles of incorporation that may cause a decline in governance.

[Major reasons for voting against]

- ✓ Grant of the authority to determine dividends to the board of directors
- ✓ A contract for limitation of liability covering inappropriate persons
- ✓ A revision of articles of incorporation that increases the maximum number of directors in an inappropriate manner

2. Exercise of Voting Rights

Proposal Subject	Company	Reason for Voting Against
Proposals related to capital structure	1st sec. of the Tokyo Stock Exch. Information & Communication	<u>A takeover defense measure not considered to contribute to an increase in shareholder value</u> Voted against the proposal because of the possibility that the period of consideration by an independent committee concerning proposals from prospective acquirers would be extended indefinitely.
	1st sec. of the Tokyo Stock Exch. Rubber Products	<u>A takeover defense measure considered to raise doubt about objective management</u> Voted against the proposal because the objectivity of initiation of the takeover defense measure is not ensured due to insufficient independence of the independent committee.
	1st sec. of the Tokyo Stock Exch. Real Estate	<u>Capital policy not considered to contribute to an increase in shareholder value</u> Voted against the proposal because there was no rational reason for increasing the total number of authorized shares to a level far above the number of outstanding shares.
Proposals related to business restructure	1st sec. of the Tokyo Stock Exch. Retail Trade	<u>A share exchange not considered to contribute to an increase in shareholder value</u> Voted against the proposal because a rational explanation was not provided concerning the transformation into a full subsidiary through a share exchange.
	1st sec. of the Tokyo Stock Exch. Electric Appliances	<u>A share exchange that may undermine shareholder value</u> Voted against the proposal because the share exchange ratio was considered to be calculated on the basis of an unfairly low price.
Proposals related to incentives improvement for executives	1st sec. of the Tokyo Stock Exch. Information & Communication	<u>A stock option program that may cause significant dilution</u> Voted against the proposal because the maximum possible number of shares that may be granted was not disclosed, raising the possibility that the value of existing shareholders' shares would be significantly diluted.
	1st sec. of the Tokyo Stock Exch. Retail Trade	<u>A stock option program that raises an appropriateness issue concerning persons to whom stock options are granted</u> Voted against the proposal because outside executives expected to exercise the supervisory function concerning management were included among the persons to whom stock options would be granted.
Other proposals	1st sec. of the Tokyo Stock Exch. Pharmaceutical	<u>Grant of the authority to determine dividends to the board of directors</u> Voted against the proposal because the grant of the authority to determine the distribution of surplus as dividends to the board of directors is considered to undermine shareholders' interests.
	1st sec. of the Tokyo Stock Exch. Electric Power & Gas	<u>A contract for limitation of liability covering inappropriate persons</u> Voted against the proposal because there was no reference to the exclusion of persons with responsibility for past business performance concerning the conclusion of the contract for limitation of liability
	1st sec. of the Tokyo Stock Exch. Banks	<u>A revision of articles of incorporation that increases the maximum number of directors in an inappropriate manner</u> Voted against the proposal because there was considered to be no rational reason for the revision of articles of incorporation to increase the maximum number of directors.

3. Engagement

○ Number of cases of engagement

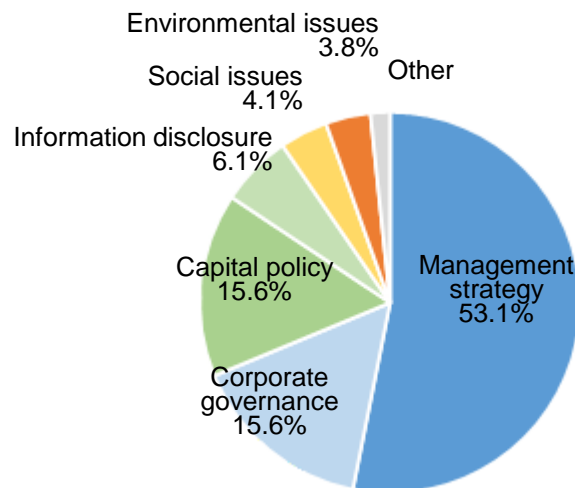
In FY2015, regarding the Employees' Pension Insurance Benefits Adjustment Fund, the Association implemented engagement with a total of 3,548 companies through the 24 investment managers entrusted with domestic stock investment. The number of cases of engagement was 9,837 in total. The number of cases of direct dialogue with top managers of companies was 2,873, or 29.2% of the total.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues, including management challenges, came to 5,228, or 53.1% of the total, followed by dialogue concerning corporate governance issues, including the composition of the board of directors with 1,534 cases (15.6%) and capital policy issues, including the shareholder return with 1,534 cases (15.6%).

Number of cases of engagement in FY 2015 (including overlaps)

Dialogue subject	Number of cases		Dialogue with top managers	
		Composition		Rate
Total	9,837	100.0%	2,873	29.2%
Dialogue concerning management strategy	5,228	53.1%	1,741	33.3%
Dialogue concerning corporate governance	1,534	15.6%	372	24.3%
Dialogue concerning capital policy	1,534	15.6%	497	32.4%
Dialogue concerning information disclosure	600	6.1%	175	29.2%
Dialogue concerning social issues	402	4.1%	36	9.0%
Dialogue concerning environmental issues	376	3.8%	12	3.2%
Other	163	1.7%	40	24.5%

Share by dialogue item



*Including the results before October 2005, when pension systems were unified into the Employees' Pension Insurance system.

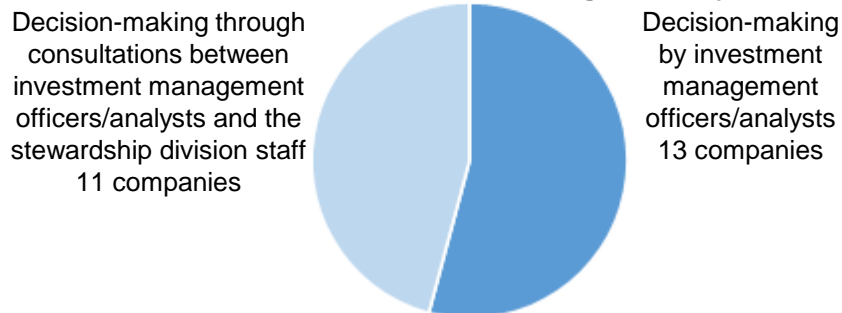
*The number of cases of activity was the same with respect to the Transitional Long-term Benefits Adjustment Fund, which adopts the same products.

3. Engagement

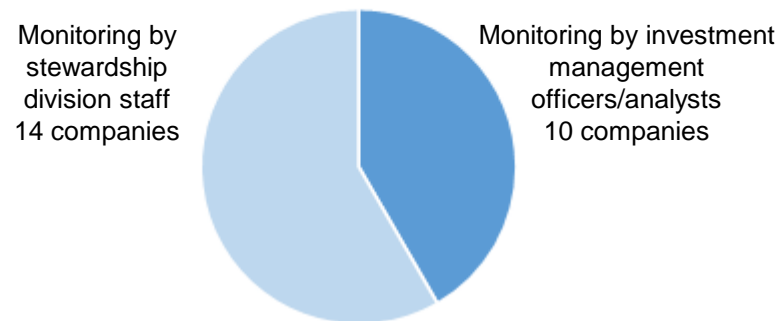
Processes and systems of implementing engagement at investment managers

- Concerning the implementation process, the number of investment managers which gave investment management officers/analysts the decision-making authority regarding dialogue partner companies and dialogue subjects was slightly higher than the number of investment managers which made decisions through consultations between investment management officers/analysts and stewardship division staff. Concerning the monitoring of the progress in dialogue, investment managers where the stewardship division is responsible for the monitoring accounted for the majority.
- The number of stewardship division staff members averaged 19 per company, although there was wide variance depending on the organization size, the implementing entity and the investment style. The number of companies with which engagement was implemented ranged widely, from less than 10 to more than 500, across investment managers. The wide variance is considered to be mainly attributable to differences in the definition of engagement activity between investment managers.

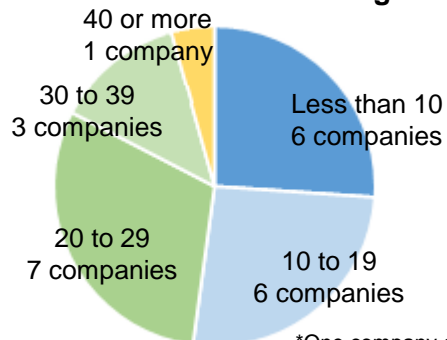
Persons with decision-making authority



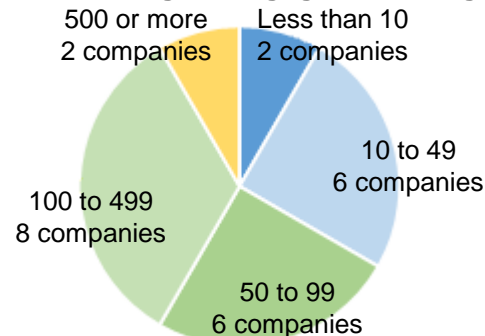
Persons who conduct monitoring



Number of engagement division staff members at investment managers



Total number of companies with which investment managers engaged in dialogue



*One company did not give a clear reply.

3. Engagement

○ Examples of engagement implementation processes by investment style

- ✓ Concerning the method of selecting dialogue partner companies, investment managers adopting the active investment style selected companies whose corporate value was expected to increase through resolution of issues from among the investee companies in many cases. It was also learned that in some cases, they conducted dialogue with candidate investee companies from the viewpoint of closely examining the possibility of future investment. On the other hand, investment managers adopting the passive investment style, which invest in a broad range of stocks that are stock index components, mainly selected companies whose market capitalization is large from the viewpoint of dialogue efficiency, while bearing in mind the provision of support for the stock market as a whole.
- ✓ Concerning the method of determining dialogue subjects, investment managers adopting the active investment style conducted dialogue regarding management, capital policy and governance in many cases. On the other hand, in some cases, investment managers adopting the passive investment style conducted dialogue regarding issues extending across the stock market, including social and environmental issues, in order to raise the value of the entire market.

3. Engagement

Process	Investment style	Specifics
Selection of dialogue partner companies	Active	<p><u>Selection of dialogue partner companies based on consultation between analysts and investment management officers</u> Select companies which have room for improvement in capital productivity and for which improvement can be expected through dialogue as priority dialogue partner companies at an engagement meeting comprising analysts and investment management officers</p>
		<p><u>Implementation of dialogue with candidate investee companies in addition to investee companies</u> In order to ascertain the creation of corporate value, implement dialogue with investee companies and regard companies whose corporate value is expected to increase through resolution of management issues as candidate investee companies and select them as dialogue partner companies.</p>
		<p><u>Selection by analysts in line with integrated frameworks</u> Establish four frameworks, for business strategy, capital policy, governance and information disclosure, with analysts selecting companies facing problems from the viewpoints of these matters as dialogue partner companies.</p>
	Passive	<p><u>Consideration for the extent of the impact on the entire stock market</u> From the perspective of efficiency, mainly select companies whose market capitalization is large as dialogue partner companies and add companies whose corporate value is expected to increase through engagement and companies involved in inappropriate incidents to the scope of dialogue partner companies.</p>
		<p><u>Narrowing down dialogue partner companies by theme from the viewpoint of efficiency</u> Select major companies whose market capitalization is large with respect to general issues and select companies from the viewpoint of increasing corporate value with respect to specific issues.</p>

3. Engagement

Process	Investment style	Specifics
Decision on dialogue subjects	Active	<p><u>Dialogue concerning issues related to an increase in corporate value</u> Hold broad discussions about companies' growth strategy, capital policy including the shareholder return and other matters that may become a driver of increase in corporate value or potential risk for the company.</p>
		<p><u>Different dialogue items for investee companies and others</u> In the case of investee companies, implement dialogue mainly about the shareholder return because their management and governance are held in high regard. In the case of other companies, consider the possibility of making investment after implementing dialogue about management and governance issues.</p>
		<p><u>Dialogue focusing on Japanese companies' structural problems</u> Implement dialogue mainly about capital policy because Japanese companies have a strong tendency to retain a huge amount of surplus funds.</p>
	Passive	<p><u>Dialogue intended to support the entire stock market</u> Hold discussions about common issues that obstruct an increase in corporate value in the entire stock market in addition to financial and non-financial issues related to an increase in corporate value.</p>
		<p><u>Dialogue about both issues related to individual companies and issues related to the whole society</u> Implement dialogue towards solution of ESG issues related to the whole society on the premise of long-term holding in addition to ESG issues related to individual companies because of the absence of the option of selling.</p>

3. Engagement

○ Example cases of engagement that led to some results

The Association's assessment is that as a result of efforts to resolve issues faced by companies through dialogue, a positive change toward companies' sustainable growth is occurring.

Representative example cases that led to concrete results are as follows:

- ✓As a result of continuous dialogue concerning enhancement of competitiveness, measures to improve business performance through structural reform and an increase in research and development investment were announced.
- ✓As a result of the presentation of proposals for governance improvement to companies, measures were implemented to enhance the transparency of the board of directors and improve the management of the board.
- ✓As a result of dialogue calling for improvement in the return on equity (ROE), measures were implemented to enhance shareholder return, including an increase in dividends and acquisition of own shares.
- ✓As a result of calling for a company to restore the trust lost due to an inappropriate incident, the decision was made to introduce measures to strengthen internal control systems and prevent recurrence.

3. Engagement

Dialogue subject	Company	Specifics	
Dialogue concerning management strategy	1st sec. of the Tokyo Stock Exch. Non-ferrous Metals	Dialogue	Implemented dialogue about ways of enhancing competitiveness through the speedup of the decision-making process and the use of global production bases in light of the company's difficult situation due to the severe demand environment and competitors' offensives.
		Result	Measures to improve business performance through structural reform were announced.
	1st sec. of the Tokyo Stock Exch. Transportation Equipment	Dialogue	Implemented dialogue about the need to accelerate investment in development of advanced technology based on the recognition of the critical importance of advanced technology, including environmental technology, for the maintenance and enhancement of competitiveness in the medium to long term.
		Result	Alliances with other companies were formed and research and development expenditure increased significantly, leading to the acceleration of investment in development of advanced technology.
Dialogue concerning corporate governance	1st sec. of the Tokyo Stock Exch. Services	Dialogue	Conveyed concerns over the lack of information disclosure by the nominating/compensation committees and the effectiveness of the management of the committees and held discussions about countermeasures.
		Result	A positive reply was given concerning the expansion of information disclosure and improvement of management.
	1st sec. of the Tokyo Stock Exch. Services	Dialogue	Recommended a management policy for deepening discussions about medium- to long-term management through such measures as increasing the frequency of board of directors meetings, extending the duration of each meeting and narrowing down the agenda.
		Result	The way of management of the board of directors was revised in line with the recommendation.
Dialogue concerning capital policy	1st sec. of the Tokyo Stock Exch. Chemicals	Dialogue	Suggested that both investment for growth and the shareholder return can be increased in light of the financial soundness and improvement in profitability although the improvements in shareholder return and ROE were insufficient.
		Result	It was decided to consider shareholder return solutions, including an increase in dividends and future acquisition of own shares.

3. Engagement

Dialogue subject	Company	Specifics	
Dialogue concerning capital policy	1st sec. of the Tokyo Stock Exch. Transportation Equipment	Dialogue	Held discussions about improving profitability and requested that measures for shareholder return solutions be considered while showing understanding on an increase in expenditure related to growth strategy because the increase was a factor behind the decline in ROE.
		Result	Shareholder return solutions were implemented through share repurchase.
Dialogue concerning information disclosure	1st sec. of the Tokyo Stock Exch. Air Transportation	Dialogue	Called for efforts to deepen investors' understanding concerning organizational system reforms related to an increase in corporate value.
		Result	The contents of explanations provided under a medium-term management plan changed in line with the recommendation, resulting in increased confidence among investors.
Dialogue concerning social issues	1st sec. of the Tokyo Stock Exch. Services	Dialogue	Exchanged opinions about guidance provided to member stores following the receipt of administrative guidance concerning non-payment of wages to part-time workers and about the risk of a decline in reputation related to labor management problems.
		Result	The recognition of risks related to labor management problems was shared and specific recurrence prevention measures were implemented.
	1st sec. of the Tokyo Stock Exch. Transportation Equipment	Dialogue	Concerning the fuel efficiency falsification issue, called for efforts to restore confidence by ensuring the implementation of thorough recurrence prevention measures and strengthening the governance system.
		Result	Appropriate measures were implemented, including internal disciplinary measures and thorough recurrence prevention measures based on a report issued by a third-party committee.
Dialogue concerning environmental issues	1st sec. of the Tokyo Stock Exch. Foods	Dialogue	Based on the idea that vigorous environmental activity may be the factor leading to enhanced competitiveness and market share growth, recommended that the appeal of this activity be emphasized to investors.
		Result	A factory tour intended to explain environmental activity and the ensuing increase in shareholder value was planned for investors.

4. Summary of Initiatives in FY2015

○ **Matters learned through reports and interviews (1) [Exercise of voting rights]**

Amid the deepening understanding of the Association's policy for the exercise of voting rights among investment managers, it was learned that voting rights were appropriately exercised in line with the Association's Guidelines for Exercising Shareholders' Voting Rights.

Concerning the status of corporate governance, while some improvements are observed, including the spread of moves to elect multiple outside directors and growth in companies' awareness about the independence of outside directors and auditors, the vote-against rate remains high. Therefore, the Association believes that there is still ample room for improvement.

- ✓ It was learned that at all investment managers entrusted with domestic stock investment by the Association, the Association's Guidelines for Exercising Shareholders' Voting Rights are applied to their guidelines as a priority.
- ✓ It was learned that concerning investment managers whose understanding of the Association's guidelines had been insufficient in the exercise of voting rights in the previous year, their understanding deepened and voting rights were exercised thoroughly in line with the guidelines.
- ✓ The Association invested in domestic stocks only through entrusted investment and instructed investment managers to exercise voting rights by taking advantage of their in-depth knowledge concerning corporate management after presenting its approach and policy in the form of the Guidelines for Exercising Shareholders' Voting Rights. Even so, the decision concerning the exercise of voting rights concerning the same proposal differed between investment managers in some cases because of differences in the judgment criteria of individual investment managers.
- ✓ Concerning proposals for which the Association entrusted decision-making to investment managers, such as performance criteria related to the election of directors and independence related to the election of outside directors, the Association requested explanations regarding the rationality of the reasons for the decisions and learned that appropriate decisions had been made.

4. Summary of Initiatives in FY2015

Association's views

- ✓ Concerning the decline in the vote-against rate in the results of the exercise of voting rights in the current year from the previous year, although the decline indicates that investee companies' corporate governance is moving closer to the desirable image of companies as shown in the Association's Corporate Governance Principles, 22.0% of the proposals were voted against. Therefore, further improvement efforts are required.
- ✓ In particular, concerning proposals related to the board of directors and directors, the vote-against ratio remained high (40.4%), so the Association believes that there is ample room for improvement.
- ✓ Concerning proposals related to takeover defensive measures, although the Association's guidelines stipulate that such proposals should be voted against in principle, the rate of "for" votes based on the escape clause remained high (35.1%). Therefore, it is necessary to call for investment managers to thoroughly understand the Association's guidelines.

4. Summary of Initiatives in FY2015

○ **Matters learned through reports and interviews (2) [Engagement]**

The Association learned that all investment managers entrusted with investment by it conducted engagement activity and that each investment manager was conducting engagement in consideration of the characteristics of its investment style, such as active investment or passive investment while using resourceful ideas to determine the subjects and method of dialogue.

On the other hand, there are wide differences between investment managers in terms of the approach to engagement activity and the status of activity, including implementation processes. Therefore, the Association will call for investment managers to review their policy from the viewpoint of enhancing the effectiveness of engagement.

- ✓ It was learned that all investment managers entrusted with domestic stock investment by the Association implemented dialogue with investee companies. It was also learned that engagement was implemented in the case of both active and passive investments.
- ✓ It was learned that many investment managers positioned engagement as an “important means to promote an increase in corporate value.”
- ✓ It was learned that in some cases, investment managers entrusted with investment in multiple products changed the subjects and method of dialogue, the target period, etc. concerning products with different characteristics such as active and passive investment products.
- ✓ It was learned that while some investment managers granted significant authority over implementation processes to investment management officers and analysts, others had company-wide systems based on the stewardship division.
- ✓ It was learned that there were differences concerning the number of officials in charge of engagement between investment managers, reflecting differences in organization size, investment style, etc.
- ✓ It was learned that there was wide variance between investment managers in the number of companies with which engagement was conducted, reflecting differences in the number of entrusted products, the investment style and the definition of engagement.

4. Summary of Initiatives in FY2015

Association's views

- ✓ The Association believes that investment managers are using various resourceful ideas and initiatives concerning their policy for engagement, the method of dialogue, etc., reflecting their respective investment philosophies and investment styles.
- ✓ On the other hand, the Association also believes that there are issues concerning which the policy should be reviewed from the viewpoint of enhancing the effectiveness of engagement, such as investment managers' definitions of and systems for engagement activity and the activity's relationship with the investment process.

4. Summary of Initiatives in FY2015

- **Investment managers' excellent initiatives and issues (1)**

The Association learned that all investment managers entrusted with domestic stock investment by the Association had expressed an intention to sign up to the Stewardship Code.

While investment managers were conducting excellent stewardship initiatives, it was learned that their stewardship activity involved some issues that may affect the Association's fulfillment of the stewardship responsibilities.

Below, we show excellent initiatives conducted by investment managers. We hope that investment managers will use resourceful ideas and make improvements in order to enhance the effectiveness of their stewardship activity by sharing the Association's recognition of issues.

4. Summary of Initiatives in FY2015

- ✓ Division of roles and information collaboration between the functions of implementing and supervising stewardship activity

Concerning the systems to exercise voting rights and implement engagement, it was learned that investment managers conducting excellent initiatives had divisions which were dedicated to stewardship and which had supervisory responsibility and the authority to make final decisions and were engaging in stewardship activity based on appropriate recognition of the situation through information collaboration with investment management officers and analysts who know well about investee companies.

Investment manager	Specific initiative
A	Initial decisions concerning the exercise of voting rights are made by analysts, and the supervisory function has two elements, namely the internal guidelines and the committee on the exercise of voting rights. The committee on the exercise of voting rights, which is comprised of analysts, portfolio managers and legal affairs staff, makes final decisions concerning the exercise. The committee collects recommendations concerning proposals from various analysts, reviews the uniformity of decisions concerning the exercise and the validity of analysts' recommendations, and encourages analysts to reconsider their decisions in some cases.
B	The committee on the exercise of voting rights conducts deliberation and makes decisions after the secretariat established within the stock investment division has formulated plans for the exercise. The committee on the exercise of voting rights is comprised of executives and compliance officers appointed by the chairperson. It conducts deliberation on the specifics of the exercise based on the results of close examination by the committee's secretariat. Concerning proposals related to corporate profitability, the committee also uses qualitative evaluation by analysts and fund managers as a reference, in addition to the numerical ROE benchmark.
C	Investment management officers and analysts implement dialogue with investee companies concerning business strategy, financial strategy, IR strategy and governance issues from the viewpoint of increasing corporate value in the medium to long term. Corporate governance officers, who are stewardship experts, give advice to investment management officers concerning dialogue and implement dialogue as necessary in cooperation with investment management officers.
D	The engagement division, which is comprised of senior analysts and senior portfolio and fund managers, selects from the investment universe companies which have room for improvement in capital productivity and for which improvement is can be expected through dialogue as dialogue partner companies. The engagement division periodically examines the status of dialogue implemented by relevant analysts.

4. Summary of Initiatives in FY2015

The Association believes that it is desirable that from the viewpoint of excluding arbitrariness from decisions concerning the exercise of voting rights and promoting uniform stewardship activity by investment managers, investment managers establish systems to conduct stewardship activity under which an appropriate division of roles and information collaboration are ensured while the expertise of analysts and the stewardship division is used.

4. Summary of Initiatives in FY2015

○ Investment managers' excellent initiatives and issues (2)

✓ Evaluation of engagement activity and feedback

It was learned that as an example of an investment manager's excellent initiative related to the evaluation of engagement activity, some investment managers were appropriately managing and sharing the contents and progress of engagement, while also systematically reviewing the effectiveness and appropriateness of past engagement activities and providing effective feedback in order to enhance future initiatives. It was also learned that in some cases, investment managers were conducting initiatives to internally accumulate knowledge and enhance the dialogue capability.

Investment manager	Specific initiative
A	The division in charge of exercising voting rights grasps and manages the progress in engagement by sharing information on how ESG issues and engagement activities are reflected in investment behavior at a meeting comprised of divisions responsible for investment management, legal affairs and customer relationships.
C	A dedicated division collects information concerning matters for which analysts cannot obtain information through their routine research activity, such as the global trend in ESG and responsible investment and enhances analysts' dialogue capability by providing such information to them and holding discussions. As an initiative to strengthen the monitoring of engagement, a system to manage the progress in engagement by dialogue subject is being established internally.
E	The engagement division is conducting more effective engagement by identifying overseas examples of initiatives and issues in cooperation with investment management officers, analysts and overseas stewardship teams.
F	While analysts are managing the items of their dialogue on their own, the items are accumulated in a common database so that all personnel involved in investment management can look at them. In addition, engagement seminars are periodically held in order to enhance management of progress and analysts' skills through the sharing of the status of progress and successful examples.
G	Investment Manager G does not evaluate individual engagement activity. However, in order to raise the overall skill level, Investment Manager G aims to promote analysts' growth and uniformity in dialogue activity by having analysts submit the subjects of dialogue to their superiors in advance and receive instructions. In addition, brush-up seminars in which young analysts receive instructions from senior analysts are held.

On the other hand, there were cases in which engagement activities were not evaluated for reasons such as because engagement is an initiative to encourage an increase in corporate value in the long term or because stock prices are strongly influenced by such factors as short-term business performance and changes in the economic situation.

4. Summary of Initiatives in FY2015

The Association believes that appropriate evaluation of past engagement activities and their results is necessary for increasing the effectiveness of stewardship activity.

The Association also believes that enhancement of investment managers' internal capabilities is also important for enhancing the effectiveness of dialogue. The Association hopes that investment managers will not only implement engagement activities but also evaluate them and make constant improvement efforts.

4. Summary of Initiatives in FY2015

○ **Investment managers' excellent initiatives and issues (3)**

✓ Relationship between the investment decision process and stewardship activity

It was learned that in some cases, investment managers were actively incorporating stewardship activity into the investment decision process, for example by using information obtained during the process of decision making concerning the exercise of voting rights and during dialogue with companies for long-term forecasts of business performance in corporate analysis.

Investment manager	Specific initiative
A	Investment Manager A uses engagement for the purpose of improving profitability and capital efficiency while implementing the investment management process leading up to investment decisions. When the direction of resolution of issues is unclear, Investment Manager A uses the progress in dialogue as a reference for investment decisions, including selling stocks, after carefully considering whether there is not a better approach to dialogue.
C	Positioning engagement as the core of medium- to long-term research and investment activity processes, Investment Manager C forecasts medium- to long-term business performance and evaluates corporate value after dialogue with companies and close examination based on their management visions and strategies. When analysts have judged that there are measures to increase corporate value during the process of deepening discussions with companies, Investment Manager C seeks to share opinions through constructive dialogue.
H	Investment Manager H is investing in stocks which are considered to be attractive in terms of fundamentals, and in order to further enhance the fundamentals of investee companies, it conducts engagement. In addition, as Investment Manager H positions engagement as an activity integrated with the exercise of voting rights, it conveys its expectations for companies to them continuously through dialogue.
I	While Investment Manager I invests in stocks for which growth is expected in the medium to long term in consideration of their valuation, it believes that it is important to better consolidate the path to growth through dialogue. Even in the case of companies for which growth is expected in the medium to long term, Investment Manager I hopes that improvement will be made through engagement when the companies face management issues.
J	Investment Manager J positions engagement as activity to enhance the accuracy of investment decisions and strengthen risk management in addition to increasing corporate value in the medium to long term through dialogue. For example, Investment Manager J uses information obtained through dialogue concerning management strategy and capital policy as an important reference for considering continuously holding stocks in investee companies.

4. Summary of Initiatives in FY2015

Investment and stewardship activity are conducted in line with the common objectives of promoting an increase in the corporate value of investee companies and the sustainable growth of the companies and increasing the investment return for beneficiaries.

The Association hopes that investment managers will review their views concerning the relationship between the investment decision process and stewardship activity and conduct effective initiatives from the viewpoint of contributing to the sustainable growth of the investee companies.

5. Future Initiatives

○ The Association's future initiatives

The Association intends to actively conduct stewardship activity, mainly the exercise of voting rights, engagement and ESG investment, in order to simultaneously fulfill the fiduciary and social responsibilities.

The Association believes that the stewardship responsibilities can be more effectively fulfilled on the whole by continuing to appropriately develop its policy for stewardship activity, including the Guidelines for Exercising Shareholders' Voting Rights, and indicating its approach and policy and then by conducting stewardship activity through investment managers with in-depth knowledge concerning corporate management and appropriately monitoring their activity from the viewpoint of enhancing the activity's effectiveness. Specifically, the Association is considering the following initiatives.

✓ Implementation of effective monitoring of investment managers

From the viewpoint of enhancing the effectiveness of stewardship activity, the Association will continue to make sure that investment managers' stewardship activity is consistent with the Association's policy and implement effective monitoring placing emphasis on the quality of initiatives.

✓ Collaboration with other public pension funds, etc.

As part of its support for appropriate decision making related to dialogue with investee companies and stewardship activity, the Association will conduct initiatives such as exchanging opinions with its member associations and other public pension funds as necessary.

✓ Exercise of voting rights concerning foreign stocks

From the viewpoint of more actively fulfilling the stewardship responsibilities, the Association will exercise voting rights concerning stocks of foreign companies holding a general meeting of shareholders on or after July 1, 2016, in addition to the conventional exercise of voting rights concerning domestic stocks, through investment managers. It will also appropriately publish and report the results and status of the exercise of voting rights.

✓ 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.

6. Reference Materials

- **Policy concerning stewardship activity**

Basic Policy on Funds (established on October 1, 2015)

3. Activities to fulfill the stewardship responsibilities

Shareholders' voting rights are exercised so as to ensure that companies conduct business management in a way that maximizes shareholders' interests in the long term.

When the Association issues instructions for the exercise of voting rights individually, it orders investment managers to exercise the rights in accordance with the instructions. When the Association does not issue instructions for the exercise of voting rights individually, it requires investment managers to exercise the rights in accordance with the purposes of the Association's Corporate Governance Principles and Guidelines for Exercising Shareholders' Voting Rights. In addition, the Association requires investment managers to report on the status of the exercise of voting rights.

When doing so, the Association reviews the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights as necessary in consideration of the Principles for Responsible Institutional Investors «Japan's Stewardship Code» (prepared by the Council of Experts Concerning the Japanese Version of the Stewardship Code on February 26, 2014) and the Corporate Governance Code (Tokyo Stock Exchange, June 1, 2015). The Association also conducts activities in line with the basic policy for fulfilling the stewardship responsibilities (which refer to institutional investors' responsibilities for increasing investment returns for customers and beneficiaries in the medium to long term by encouraging companies to increase their corporate value and achieve sustainable growth through constructive engagement based on deep understanding concerning investee companies in Japan and their business environment).

When reviewing the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights, the Association submits the review to deliberation by the committee and reports the status of stewardship activity to the committee in a timely manner.

As part of efforts to help make appropriate decisions related to dialogue with investee companies and the stewardship activity, the Association also considers exchanging opinions with other implementing organizations and administration and management entities, such as 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 creating opportunities to do so as necessary.

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

6. Reference Materials

Corporate Governance Principles (established on April 1, 2004)

(1) Basic perspectives of the Association

The Association has a role of managing the Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefits Adjustment Fund and Transitional Long-Term Benefits 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 which 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.

6. Reference Materials

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 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. 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 to a certain extent will be secured.

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 dialogs 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.

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.

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

6. Reference Materials

○ 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 investment 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 investment 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"> • Requested the establishment of the outside director post • Specified the definition of antisocial acts • Established the takeover defensive measure item
2007	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Tolerated non-exercise of voting rights related to companies' own shares and shares of parent companies with the risk of conflict of interest.
2008	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Added appropriation of surplus to the scope of factors that should be considered in relation to proposals for the election of directors.
2009	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Incorporated the viewpoint of undervalued dividends into appropriation of surplus. • Requested that shareholders' proposals be as closely examined as companies' proposals are. • Clarified the criteria for antisocial acts. Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> • Added non-support for indefinite extension of the period of consideration by takeover targets.
2010	February	Started entrusted investment in SRI 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"> • Made an explicit reference to the independence of third-party committees.

6. Reference Materials

2011	March	<p>Revised the “Corporate Governance Principles of Pension Fund Association for Local Government Officials.”</p> <ul style="list-style-type: none"> • Unified wordings and clarified the contents. <p>Revised the “Guidelines for Exercising Shareholders’ Voting Rights.”</p> <ul style="list-style-type: none"> • Shifted to case-by-case judgment concerning proposals for the election of special directors. • Adopted case-by-case judgment concerning stock options whose exercise price is lower than the market price. <p>Revised the “Pension Fund Association for Local Government Officials’ Approach to Proposals on Takeover Defense Measures.”</p> <ul style="list-style-type: none"> • 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.
2013	March	<p>Revised the “Guidelines for Exercising Shareholders’ Voting Rights.”</p> <ul style="list-style-type: none"> • Requested that consideration be given to the attendance rate, etc. in the re-election of outside directors and outside auditors.
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"> • 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. <p>Newly adopted ESG funds 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"> • Added descriptions concerning the use of independent outside directors and directors who are not executive directors. • Added descriptions concerning requests for corporate management teams to disclose information, including non-financial information. • Added descriptions concerning requests for corporate management teams to conduct active dialogue with investors. <p>Revised the “Guidelines for Exercising Shareholders’ Voting Rights.”</p> <ul style="list-style-type: none"> • 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. • Decided that negative judgment be made concerning takeover defense measures in principle
	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"> • Specified measures to fulfill the stewardship responsibilities.
	December	Newly adopted two ESG funds concerning domestic stocks
2016	March	<p>Revised the “Guidelines for Exercising Shareholders’ Voting Rights.”</p> <ul style="list-style-type: none"> • 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).
	April	<p>Established the Guidelines for Exercising Shareholders’ Voting Rights (Foreign Equities).</p> <p>Instructed investment managers to exercise voting rights in line with the Guidelines.</p>

6. Reference Materials

○ Questionnaire concerning stewardship activity in FY2016

No	Question
Q1	Concerning Japan's Stewardship Code
Q1-1	If any of the principles of Japan's Stewardship Codes is not being implemented, explain the reason for non-implementation.
Q1-2	If any change has been made to the policy and systems for the fulfillment of the stewardship responsibilities compared with the previous year, explain the contents of and the reason for the change.
Q1-3	If there are challenges recognized by you in relation to the fulfillment of the stewardship responsibilities, cite them.
Q2	Exercise of voting rights in general
Q2-1	Fill in the name of the investment manager, information concerning the fund, the number of investee companies and the results of the exercise of voting rights.
Q2-2	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.
Q2-3	Describe the specifics of the most recent criteria for exercising voting rights. If there is any change from the previous time, describe the change and explain the background to it. *In the case of investment managers which did not reply to the previous questionnaire, "the previous time" should be deemed to be replaced with "last year."
Q2-4	Specify the number of your employees engaging in activities related to the exercise of voting rights.
Q2-5	If there is any change in your system for exercising voting rights compared with the previous time, describe it. *In the case of investment managers which did not reply to the previous questionnaire, "the previous time" should be deemed to be replaced with "last year."
Q2-6	Enumerate the companies for which you exercised voting rights.
Q2-7	Indicate the name of the provider of the paid external service for the exercise of voting rights (a reply required only when such service was used).
Q2-8	Describe the contents of the paid external service for the exercise of voting rights (a reply required only when such service was used).
Q2-9	When recommendations for voting for or against proposals are included in the paid external service for the exercise of voting rights, to what degree do you refer to them (a reply required only when such service was used).
Q3	Election of directors and auditors
Q3-1	Describe the status of exercise of voting rights concerning proposals related to the election of directors and auditors (primary proposal basis).
Q3-2	Concerning proposals related to the election of directors and auditors, if there are cases in which you voted against the election for a reason related to the independence of outside persons, explain the reason for the vote against. *Enumerate all such cases.
Q3-3	Concerning proposals related to the election of directors, if there are cases in which you voted for the election of directors of the board on which multiple outside directors were not elected, explain the reason for the vote for. *Enumerate all such cases.
Q3-4	Concerning proposals related to the election of directors, if there are cases in which you voted against the election because the candidate outside director was serving in too many posts concurrently, explain the reason for the vote-against. *Enumerate all such cases.
Q3-5	Concerning proposals related to the election of directors and auditors, if there are cases in which you voted against the election for a reason other than those indicated in Q3-2 and Q3-4, explain the reason. *Enumerate all such cases.
Q3-6	Describe your policy for close examination of business performance (particularly with respect to target profit levels and minimum necessary profit levels)
Q3-7	If there are cases in which you voted for the re-election of directors despite three or more consecutive years of loss because you judged that the business performance was expected to recover, indicate the name of the company in question and describe the reason for the vote for. *Enumerate all such cases.

6. Reference Materials

№	Question
Q4	Director remuneration, etc.
Q4-1	If there are cases in which you voted against a proposal related to director remuneration, etc., describe the contents of the proposal and the reason for the vote against. *Enumerate all such cases.
Q5	Capital efficiency
Q5-1	Concerning proposals related to appropriation of surplus, if you have a pre-determined specific required dividend level, indicate the specific figure and describe the concept behind it. If you do not have a predetermined numerical standard, describe your specific judgment criteria.
Q5-2	If there are indicators or standards for determining capital efficiency other than the dividend level on which you place priority, describe them.
Q5-3	Describe your policy concerning proposals related to revision of articles of incorporation to grant the authority to make decisions concerning the distribution of surplus as dividends to the board of directors.
Q5-4	Describe specific cases in which you voted against a proposal because of capital efficiency issues (a low payout ratio, a low ROE, holdings of excessive cash, etc.). *Enumerate all such cases.
Q6	Takeover defense measure
Q6-1	If there are cases in which you voted against a proposal related to the introduction or continuation of takeover defense measures, explain the reason for the vote against. *Enumerate all such cases.
Q6-2	If there are cases in which you voted for a proposal related to the introduction or continuation of takeover defense measures, describe the reason for the vote for. *Enumerate all such cases.
Q7	Revision of articles of incorporation
Q7-1	Concerning proposals to partially revise articles of incorporation, if there are cases in which you voted against a shift to a company with audit and supervisory committee, explain the reason for the vote against. *Enumerate all such cases.
Q7-2	Concerning proposals to partially revise articles of incorporation, if there are cases in which you voted against the inclusion of a director who is not involved in business execution or an auditor who is not an outside auditor in the scope of the conclusion of a contract for limitation of liability, explain the reason. *Enumerate all such cases.
Q7-3	Concerning proposals to partially revise articles of incorporation, if there are cases in which you voted against a proposal for a reason other than those indicated in Q7-1 and Q7-2, explain the reason for the vote against. *Enumerate all such cases.
Q8	Shareholder proposals
Q8-1	Describe the status of the exercise of voting rights concerning shareholder proposals.
Q8-2	If there are cases in which you voted for a shareholder proposal, describe the contents of the proposal and explain the reason for the vote for. *Enumerate all such cases.

6. Reference Materials

№	Question
Q9	Antisocial activity
Q9-1	Describe specifically how you identify companies which conducted antisocial activity. If there is any change from the previous time, describe it. *In the case of investment managers which did not reply to the previous questionnaire, "the previous time" should be deemed to be replaced with "last year."
Q9-2	Describe how you dealt with companies which conducted antisocial activity. *Enumerate all cases of such companies.
Q10	Engagement activities in general
Q10-1	Describe the specifics of your most recent policy for implementing engagement.
Q10-2	Describe the specifics of your most recent processes of implementing engagement (selection of dialogue partner companies and dialogue subjects, setting of the objectives of dialogue and the achievement period, the method of monitoring and verifying the effects of the monitoring, etc.).
Q10-3	Specify the number of your employees involved in engagement activities.
Q10-4	Concerning engagement activities implemented this year, specify the number of companies with which they were conducted and their results.
Q10-5	If there are cases in which engagement activities - not limited to those implemented this year - led to an increase in an investee company's corporate value or sustainable growth, cite up to five such cases and specify the names of the companies, the objective of dialogue, and the contents and results of the activities.
Q10-6	Specify the name of the provider of external engagement service (a reply required only when such service was used).
Q10-7	Describe the contents of external engagement service (a reply required only when such service was used).
Q11	Others
Q11-1	If there is any difference between the judgment criteria of your guidelines for exercising voting rights and the Association's guidelines, describe it.
Q11-2	If there were cases in which the actual judgment concerning the exercise and other customers' judgment were different due to differences in the judgment criteria, describe the specific cases.
Q11-3	If you found any problem with respect to your systems, etc. after making decisions on exercising voting rights this time, describe it.
Q11-4	If you are considering any change to the guidelines or systems for future exercise of voting rights, describe it.
Q11-5	Describe the results of the exercise of voting rights (including non-exercise) by your affiliated companies (companies with which you have a capital relationship or which belong to the same corporate group as you).
Q11-6	If you have made or are considering making any change from the previous time with respect to the exercise of voting rights concerning investee companies and the method of dialogue in line with the publication of the Corporate Governance Code, describe it. *In the case of investment managers which did not reply to the previous questionnaire, "the previous time" should be deemed to be replaced with "last year."

DISCLAIMER

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