
FY2018 Annual Stewardship Activity Report

March 2019

Table of Contents

I. Association's stewardship activities

1. Overview of the Association's stewardship activity	3
2. Monitoring of asset managers in FY2018	6
3. Publication of activities through reports of investment results	7
4. Collaboration with other public pension funds, etc.	7

II. Exercise of Voting Rights and Initiatives (Domestic Equities)

1. Matters which the Association considers important in relation to the exercise of voting rights	9
2. Specific examples	12
3. Results of the exercise of voting rights	13
4. Examples of the exercise by proposal subject	16

III. Engagement and Initiatives (Domestic Equities)

1. Matters which the Association considers important in relation to engagement activities	19
2. Specific examples	22
3. Results of engagement activities	23

IV. Exercise of Voting Rights and Initiatives (Foreign Equities)

1. Matters which the Association considers important in relation to the exercise of voting right	25
2. Specific examples	27
3. Results of the exercise of voting rights	28
4. Examples of the exercise by proposal subject	31

V. Engagement and Initiatives (Foreign Equities)

1. Matters which the Association considers important in relation to engagement activities	33
2. Specific examples	36
3. Results of engagement activities	37

<u>VI. ESG Investment</u>	
1. ESG investment initiative	39
2. Approach to ESG investment	40
3. Performance of ESG investment	42
<u>VII. Asset Managers' Recognition of Challenges</u>	43
<u>VIII. Revision of Guidelines on Stewardship Activity</u>	45
<u>IX. Future Initiatives</u>	47
<u>X. Reference Materials</u>	49

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

1 Overview of the Association's stewardship activity

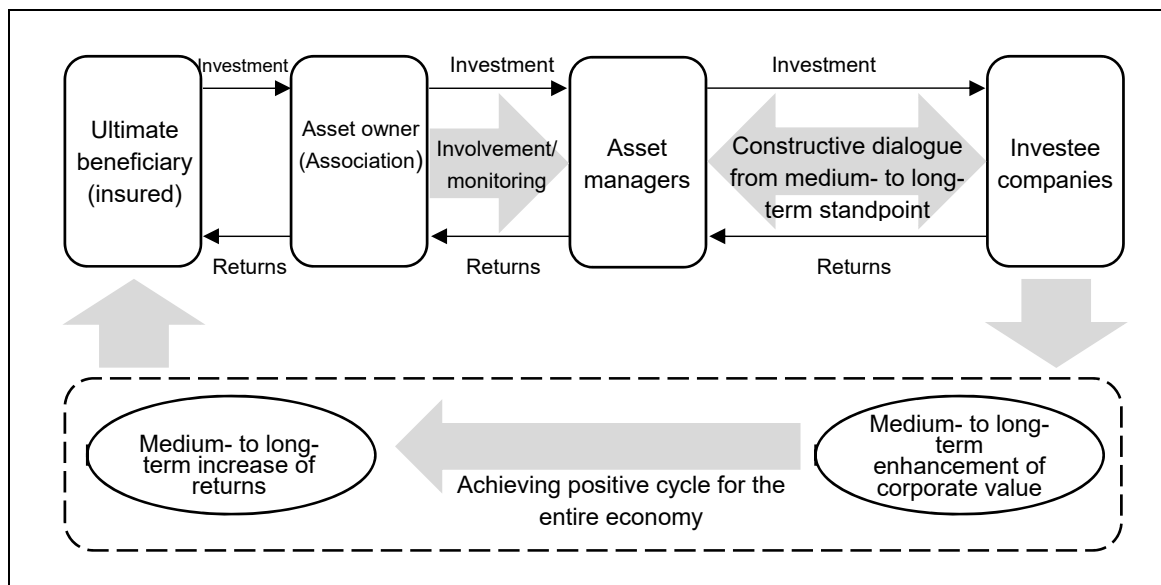
"Stewardship activities" refers to the activities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive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

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

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

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

[Stewardship Activities]



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

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

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

The Association has started investing in ESG fund in 2010, and has entrusted ESG investment through four domestic stock products.

Association's stewardship activities

[Chronology of the Association's stewardship activity]

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

*See pages 56 through 58 for details.

2 Monitoring of asset managers in FY2018

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

In addition, following the start of the exercise of voting rights concerning foreign equities in FY2016, the Association received reports on stewardship activity concerning foreign equities in FY2017 and conducted hearings in FY2018.

In April 2018, the Association held briefing meetings on the direction of the Association's stewardship activity for asset managers entrusted with domestic and foreign stock investment in FY2018 and explained the matters which the Association considers important in relation to stewardship activities (see below).

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

[Exercise of voting rights]

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

[Exercise of voting rights/engagement]

- Exercise of voting rights and engagement in an integrated manner

[Engagement]

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

Association's stewardship activities

In July 2018, the Association requested 23 asset managers entrusted with domestic stock investment and 15 asset managers entrusted with foreign stock investment to submit reports on stewardship activities of FY2017. Based on the reports submitted, the Association held interviews focused on the matters which the Association considers important in relation to stewardship activities (from November 19 to December 20, 2018).

3 Publication of activities through reports of investment results

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

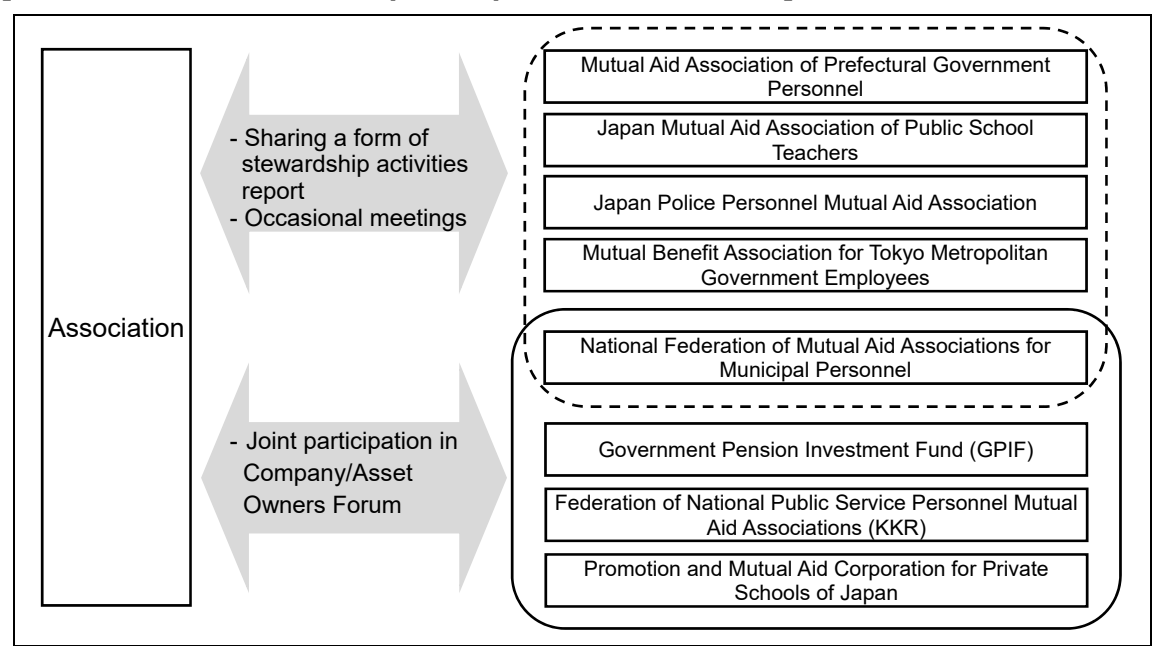
The Association's stewardship activity in FY2018 and the matters observed through monitoring will be described in the Review of Operations for FY2018 (scheduled to be published in FY2019).

4 Collaboration with other public pension funds, etc.

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

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

[Collaboration with other public pension funds, etc.]



Exercise of Voting Rights and Initiatives (Domestic Equities)

1

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

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

It was learned that almost all asset managers entrusted with domestic stock investment by the Association exercise voting rights in accordance with criteria reflecting the Guidelines on Domestic Equities.

On the other hand, regarding some asset managers, the Association observed cases in which the fact checking necessary for compliance with the Guidelines on Domestic Equities was insufficient (although an asset manager might have voted against a proposal for the payment of retirement allowances to a director based on the guidelines if a case of misconduct in which the director was involved was identified through fact-checking, it voted for the proposal due to inadequate information gathering), or in which the understanding of the purpose of the Guidelines on Domestic Equities was insufficient (an asset manager voted for a proposal for the payment of retirement allowances to a retiring internal auditor (a former executive officer) for reasons such as the auditor's length of service and the contributions made during the auditor's tenure as an executive officer, as it failed to understand the purpose of the guidelines, which requires asset managers in principle to vote against such proposals because internal auditors are expected to exercise the function of supervising business execution).

The Association will continue to seek asset managers' full understanding concerning the Guidelines on Domestic Equities.

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

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

On the other hand, regarding some asset managers, the Association observed cases in which the decision on the exercise of voting rights was made universally based on quantitative criteria and individual proposals were not closely reviewed (asset managers universally voted against proposals for an increase in the number of internal directors without examining the reason because it was necessary to exercise voting rights with respect to many companies during a short period of time when general shareholders' meetings were concentrated).

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

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

Cases	Provisions of Guidelines for Exercise of Shareholders' Voting Rights (Domestic Equities)/Response of Asset Managers	
(A)	Provisions of Guidelines	An increase in the number of directors other than outside directors should be voted against in principle unless clear and rational explanation is provided.
	Response of asset managers	Asset Manager A inquired directly with a company that submitted a proposal for the election of directors that would lead to an increase in the number of internal directors in order to check what roles the two new internal directors would perform (which were not described in the convocation notice) and voted for the election of one of them and voted against the election of the other.
(B)	Provisions of Guidelines	(Regarding stock price-linked remuneration systems, such as stock options), negative judgment should be made with respect to the grant of stock options to outside directors, who are expected to exercise the function of supervising business execution.
	Response of asset managers	Asset Manager B voted for a proposal related to stock options because it was learned through engagement that no outside director was included among the persons eligible for the grant of stock options although the convocation notice did not contain an explicit description of the proposal.

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

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

It was also learned that some asset managers utilize knowledge gained through the exercise of voting rights and engagement in an integrated manner for reviewing their respective criteria for the exercise of voting rights (see (C) below).

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

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

Cases	Response of asset managers
(A)	Asset Manager A informed Company A of its vote against a proposal related to the appropriation of surplus based on the judgment that the amount of internal reserves was excessive and discussed the development of a medium-term management plan and a policy concerning shareholder return intended to improve capital efficiency. Later, the company announced that it would acquire and cancel own shares and that it would develop a medium-term management plan.
(B)	Asset Manager B explained to Company B that the proposal for maintaining takeover defense measures scheduled to be presented at the next general shareholders' meeting was not desirable for ordinary shareholders and that the asset manager would not be able to vote for the proposal unless it was so designed as to exclude the possibility of the management team acting arbitrarily. In response, the company took measures to make some improvements, such as revising the requirements for the initiation of takeover defense measures. However, the asset manager voted against the proposal in consideration of concerns that it could encourage the management team to protect its own interests. Later, the company stated that although the asset manager's vote against the proposal was regrettable, useful discussion was held on the approach to the exercise of voting rights, indicating hopes for continued dialogue.
(C)	Asset Manager C gave companies feedback on the exercise of voting rights concerning proposals for the payment of bonuses to directors and discussed the concept behind the criteria for exercising voting rights and the perspective on the revision of the criteria. As a result, Asset Manager C's understanding on the points of attention regarding remuneration systems deepened, making it possible to enhance provisions related to remuneration systems when the asset manager revised the criteria for exercising voting rights.

2 Specific examples

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

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

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

Cases	Activities of asset managers
(A)	An outside third-party organization checks the basis of judgment concerning all proposals for which voting rights were exercised by Asset Manager A in ways deviating from the principles of the criteria for exercising voting rights in order to examine whether or not there was any incomprehensible exercise of voting rights, what kind of proposals were often voted against, and what caused the asset manager to vote against the proposals and reports the examination results to the board of directors.
(B)	At Asset Manager B, the compliance division examines the appropriateness of the exercise of voting rights, and ultimately, an advisory organization whose majority is comprised of outside directors examines the appropriateness of the examination process as well as the exercise of voting rights. Input from outside directors is reflected in the revision of the criteria for exercising voting rights.

Exercise of Voting Rights and Initiatives (Domestic Equities)

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

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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through the 23 asset managers entrusted with domestic stock investment (43 funds in total), with respect to a total of 15,617 companies which settled accounts between April 2017 and March 31, 2018. The number of proposals for which voting rights were exercised was 52,631.

Of the 52,631 proposals, 12,592 (including 1,585 shareholder proposals) were voted against, translating into a vote-against rate of 23.9% (almost the same level as that of the previous year). The vote-against rate concerning company proposals was 21.6% (up 1.2 points from the previous year).

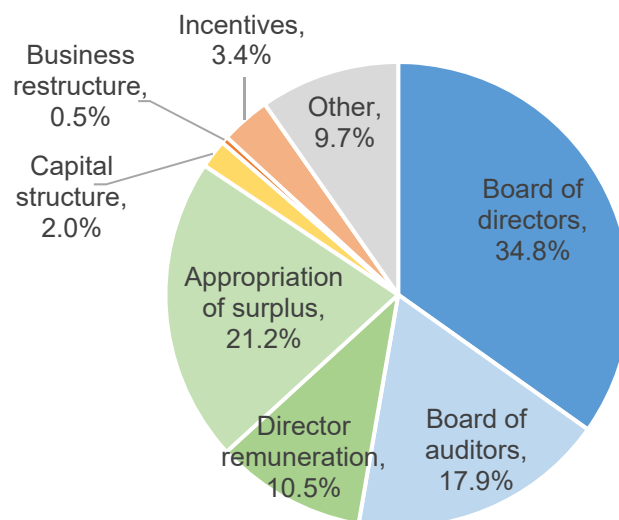
The vote-against rate came to 40.2% (down 0.6 points) concerning proposals related to the board of directors/directors, 15.0% (up 1.6 points) concerning proposals related to the board of auditors/auditors and 19.4% (up 4.1 points) concerning proposals related to director remuneration, etc.

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

Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2017 and March 31, 2018

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	52,631	100%	40,039	76.1%	12,592	23.9%	23.9%
c.f. Company Proposal	50,900	96.7%	39,893	78.4%	11,007	21.6%	20.4%
c.f. Shareholder Proposal	1,731	3.3%	146	8.4%	1,585	91.6%	94.2%
By Subject	52,631	100%	40,039	76.1%	12,592	23.9%	23.9%
Board of Directors/Directors	18,333	34.8%	10,954	59.8%	7,379	40.2%	40.9%
Board of Auditors/Auditors	9,417	17.9%	8,008	85.0%	1,409	15.0%	13.3%
Director Remuneration, etc.	5,514	10.5%	4,444	80.6%	1,070	19.4%	15.3%
Appropriation of Surplus	11,136	21.2%	10,599	95.2%	537	4.8%	4.7%
Capital Structure	1,050	2.0%	661	63.0%	389	37.0%	28.5%
Takeover Defense Measures	398	0.8%	25	6.3%	373	93.7%	88.5%
Capital Increase or Reduction	32	0.1%	31	96.9%	1	3.1%	0.0%
Third Party Allotment of Shares	24	0.0%	20	83.3%	4	16.7%	19.2%
Acquisition of Own Shares	9	0.0%	5	55.6%	4	44.4%	100.0%
Business Restructure	251	0.5%	245	97.6%	6	2.4%	6.6%
Incentives Improvement for Executives	1,813	3.4%	1,436	79.2%	377	20.8%	22.9%
Other proposals	5,117	9.7%	3,692	72.2%	1,425	27.8%	35.5%

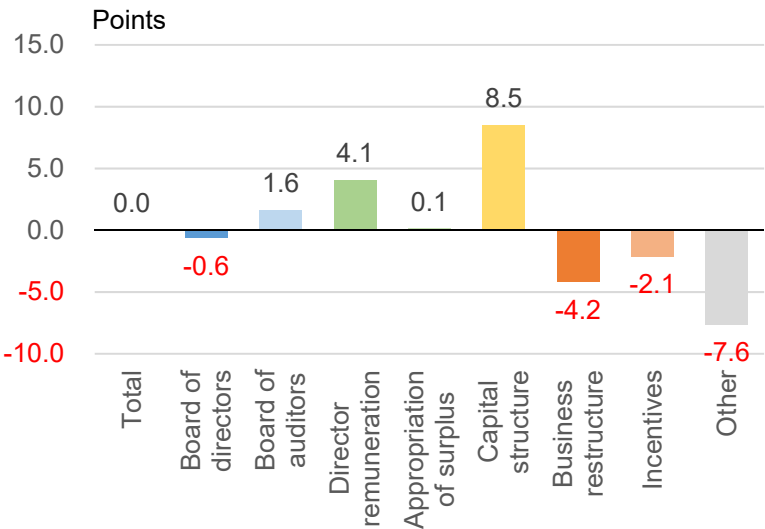
Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2017 and March 31, 2018



Exercise of Voting Rights and Initiatives (Domestic Equities)

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

Companies with accounting settlement between April 2017 and March 31, 2018



4

Examples of the exercise by proposal subject (domestic equities)

(1) Proposals related to the board of directors/directors

The vote-against rate remained high at 40.2% for reasons such as a lack of clear and well-grounded reasons concerning an increase in the number of internal directors.

Proposals were voted against in the following cases:

- ✓ There was not a clear and rational reason for increasing the number of internal directors.
- ✓ There was a problem with the independence of the candidate for outside director because the candidate formerly worked for a major lender.
- ✓ The presence of too many directors could impede quick decision-making by the board.
- ✓ The board was judged to be responsible for the continued low level of ROE.

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

The vote-against rate rose from the previous year due to such factors as the presence of asset managers that tightened the criteria related to outside auditors' attendance rate and independence.

Proposals were voted against in the following cases:

- ✓ There was a problem with the independence of the candidate for outside auditor because the candidate formerly worked for a major lender.
- ✓ There was a problem with the independence of an outside auditor because the candidate formerly worked for a business partner company.

(3) Proposals related to director remuneration, etc.

The vote-against rate rose from the previous year due to such factors as the presence of an asset manager that adopted the criterion that requires a vote against the payment of bonuses to outside directors, directors who are members of the audit and supervisory committees and auditors in principle and the continued efforts to strictly deal with inappropriate payment of retirement allowances.

Proposals were voted against in the following cases:

- ✓ Auditors responsible for supervising business administration were eligible for the payment of retirement allowances.
- ✓ Persons involved in cases of misconduct (e.g., violation of the Labor Standards Act) was eligible for the payment of retirement allowances.

Exercise of Voting Rights and Initiatives (Domestic Equities)

(4) Proposals related to appropriation of surplus

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

- ✓ Although the financial condition was sound, the ROE was low due to a problem with efficient use of capital.
- ✓ The dividend payout ratio was low despite the possession of a large amount of surplus funds.

(5) Proposals related to capital structure

The vote-against rate rose from the previous year for reasons such as the tendency to vote for proposals for reverse stock split intended for the consolidation of stock trading units, which was strong in the previous year, weakened and that efforts to strictly deal with takeover defense measures continued.

Proposals were voted against in the following cases:

- ✓ Voted against because of the small proportion of independent outside directors in the board of directors, which suggested the possibility that minority shareholders' standpoint was not taken into consideration in decision-making.
- ✓ The need for takeover defense measure was not recognized due to a lack of sufficient explanations.

(6) Proposals related to business restructure

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

A proposal was voted against in the following case:

- ✓ The proposal to make a company unrelated to the core business a wholly-owned subsidiary posed the risk of damaging shareholder value.

(7) Proposals related to incentives improvement for executives

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

Proposals were voted against in the following cases:

- ✓ Auditors responsible for supervising business administration were eligible for the grant of stock options.
- ✓ There was a lack of linkage between shares with restriction on transfer and medium- to long-term performance because the period of restriction on sales was short.

(8) Other proposals

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

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

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

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

The Association observed a case in which an asset manager that had been conducting engagement for the purpose of research in the previous year was striving to develop systems and processes for the implementation of engagement for the purpose of increasing corporate value (see the case below).

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

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

Cases	Activities of asset managers
(A)	Previously, Asset Manager A conducted dialogue with companies for the purpose of research related to investment decisions, but it started engagement for the purpose of increasing corporate value after appointing staff dedicated to stewardship activity.

(2) Details of engagement

The Association believes that what ultimately influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (See Cases (A) to (C) below).

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

Cases	Details of engagement	
(A)	Dialogue subject	[Dialogue concerning corporate governance] Company A was created through business integration between multiple companies. As a result, there was the risk that if suspicions arose that the election of a new president was influenced by the identities of the companies from which candidates came, the new president would lose the ability to unify the company. Therefore, Asset Manager A conducted dialogue with the company with respect to an increase in the number of outside directors and how to secure new outside directors with a view to discussing a succession plan and using a nomination committee for the discussion.
	Result	After the engagement, Company A increased the number of outside directors by two while reducing the total number of directors by four, resulting in an increased presence of outside directors.
(B)	Dialogue subject	[Dialogue concerning management strategy] Asset Manager B conducted dialogue with Company B about the implementation of additional measures to resolve losses at one of its business divisions.
	Result	After the engagement, Company B announced additional measures to reduce fixed costs, and the loss-making business division is now expected to turn profitable.
(C)	Dialogue subject	[Dialogue concerning capital policy] Asset Manager C proposed that Company C should make clear its fund uses, as the company was entering a phase when cash would pile up because its performance was recovering.
	Result	Under a medium-term management plan announced after the engagement, the use of cash flow was made clear.

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

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

Regarding some asset managers, the Association observed cases in which engagement was divided into multiple stages (e.g., sharing issues→taking action toward resolving the issues→resolving the issues) for the purpose of progress management and in which the effects were qualitatively examined with a focus on the progress in each stage (See Case (A) below).

The Association also observed cases in which the stage-by-stage management approach was used not only for the purpose of progress management and examination of the effects but also as a tool to effectively encourage companies to take action (see Case (B) below).

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

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

Cases	Activities of asset managers
(A)	Asset Manager A manages the engagement process in multiple stages and keep the records of engagement. It makes judgement in each stage in light of companies' subsequent actions and the results. The results are internally tabulated, examined and evaluated on a quarterly basis and are reflected in future activities.
(B)	Asset Manager B manages the engagement process in multiple stages and examines the effects by identifying the achievement. By setting detailed stages in accordance with factors such as the ranks of executives with whom the sharing of issues was implemented, Asset Manager B shares issues and conducts progress management in a way that better involves companies.

2 Specific examples (domestic equities)

Regarding some asset managers, the Association observed cases in which letters and collective engagement are used to improve the effectiveness of engagement (see the cases below).

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

Cases	Activities of asset managers
(A)	Asset Manager A uses letters in cases where it is difficult to conduct dialogue with the top management. In one past case, at a company where recommendations presented by the asset manager previously failed to reach beyond the executive responsible for IR, a letter of requests addressed to a top management meeting was actually delivered to the meeting.
(B)	A group CEO of Asset Manager B sends letters to companies as a starting point of engagement. In one case, a company that previously refused to be interviewed provided an opportunity for engagement as the letter resonated with the top management.
(C)	Asset Manager C conducts letter-based collective engagement together with other asset managers. While sending a letter has a merit in that a formal reply can be obtained, letters sent individually by asset managers may fail to reach beyond the IR division in some cases. On the other hand, conducting letter-based collective engagement has a merit in that letters tend to reach the senior management more easily.
(D)	One of the merits of conducting collective engagement is that participating asset managers can improve each other's knowledge through discussion and use improved knowledge for their individual engagement activity.

3

Results of engagement activities (domestic equities)

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

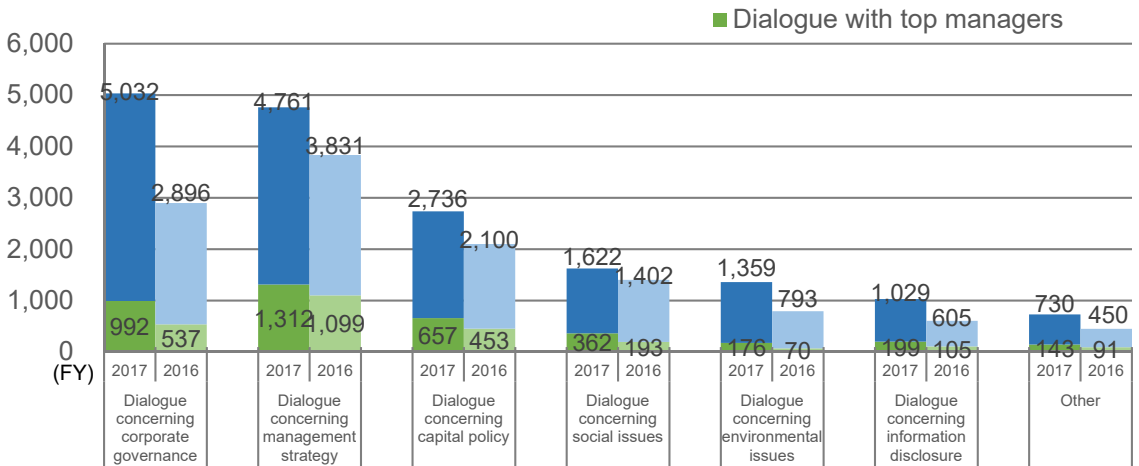
Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2017, the Association implemented engagement with a total of 6,323 companies through 23 asset managers (a total of 43 funds) to which domestic stock investment was entrusted. The number of cases of dialogue was 17,269 (up 43.0% from the previous year).

While some asset managers increased engagement staff, others focused on engagement related to environmental issues, social issues and corporate governance against the backdrop of increased attention on these issues by companies. As a result, the number of cases of engagement increased significantly.

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

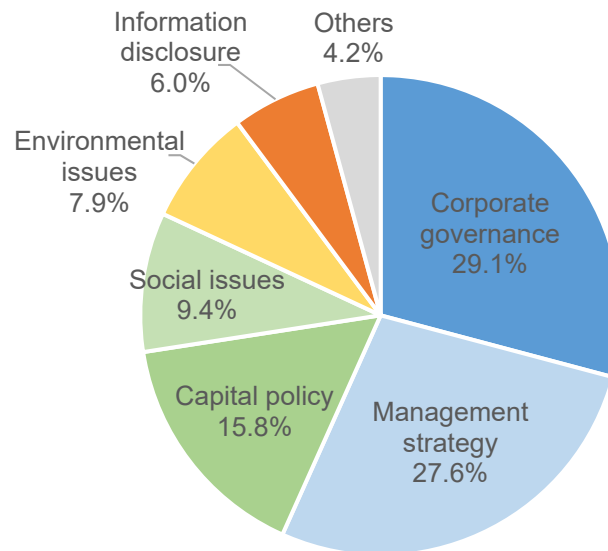
Number of cases of engagement (including overlaps)

From April 2017 to March 2018



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

Number of cases of engagement: Share by dialogue item
From April 2017 to March 2018



Exercise of Voting Rights and Initiatives (Foreign Equities)

1

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

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

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

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

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

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

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

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

Cases	Provisions of Guidelines for Exercise of Shareholders' Voting Rights (Foreign Equities)/Response of asset managers	
(A)	Provisions of Guidelines	Regarding candidates for independent directors, it should be considered whether they can make decisions from a position independent from the company, and if they are considered to be inappropriate, their election should be voted against.
	Response of asset managers	One candidate for director at Company A has been judged to be insufficiently independent because the candidate is a former CEO at a company acquired by Company A. However, as the candidate's experiences were judged to be important from the viewpoint of increasing corporate value, Asset Manager A voted for the election of the candidate.

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

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

On the other hand, regarding some asset managers that outsource investment management to other organizations, the Association observed cases in which the exercise of voting rights and engagement were not implemented in an integrated manner (voting rights were exercised by an asset manager itself, while engagement was conducted by an organization to which engagement activity was outsourced because the outsourcing contract did not contain a provision concerning the exercise of voting rights).

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

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

Cases	Response of asset managers
(A)	<p>Asset Manager A informed an oil company of its vote for a shareholder proposal for information disclosure concerning climate change countermeasures and checked the company's approach to climate change.</p> <p>The company replied that, although it had already been implementing countermeasures, such as conducting analysis concerning climate change when determining the priorities of oil drilling projects and incorporating climate change countermeasures into medium- to long-term business plans, it would consider further enhancing information disclosure while taking account of industry trends.</p>
(B)	<p>Asset Manager B informed a financial institution at which a case of misconduct occurred of its vote against the re-election of all directors proposed for re-election and checked on what measures the financial institution would implement in the future. The financial institution replied that it had already made personnel changes and revised the remuneration system and that it was now strengthening operations with the aim of improving business performance.</p>

Exercise of Voting Rights and Initiatives (Foreign Equities)

2 Specific examples

Regarding some asset managers, the Association observed cases in which the validity of the exercise of voting rights was systematically examined (see Cases (A) and (B) below).

Regarding some asset managers outsourcing investment management, the Association observed cases in which the processes of the exercise of voting rights by organizations to which investment management was outsourced and the whole of the system for the exercise of voting rights were reviewed (see Case (c) below).

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

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

Cases	Activities of asset managers
(A)	Asset Manager A lets outsiders examine the validity of the criteria for exercising voting rights and revises the criteria in light of the opinions of outsiders.
(B)	At Asset Manager B, a committee comprised of senior professionals at various internal divisions receives quarterly reports on the exercise of voting rights, makes necessary updates after periodically reviewing the criteria for exercising voting rights, and gives advice and guidance with respect to specific cases of the exercise of voting rights.
(C)	Asset Manager C monitors changes in the systems and activities of organizations to which investment management is outsourced and checks whether their criteria for exercising voting rights reflect the Association's the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities). In addition, when organizations to which investment management is outsourced undergo external audits, the audits also cover stewardship activity, and Asset Manager C checks on external audit reports.

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

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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through the 15 asset managers entrusted with foreign stock investment (18 funds in total), with respect to a total of 7,379 companies which settled accounts between April 2017 and March 31, 2018. The number of proposals for which voting rights were exercised was 51,995.

Of the 51,995 proposals, 5,853 (including 1,388 shareholder proposals) were voted against, translating into a vote-against rate of 11.3% (up 0.7 points from the previous year). The vote-against rate concerning company proposals was 9.1% (up 1.0 point).

The vote-against rate came to 11.6% (up 0.5 points) concerning proposals related to the board of directors/directors and 9.9% (down 0.2 points) concerning proposals related to director remuneration.

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

IV

Exercise of
voting rights
(foreign
equities)

Exercise of Voting Rights and Initiatives (Foreign Equities)

Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)

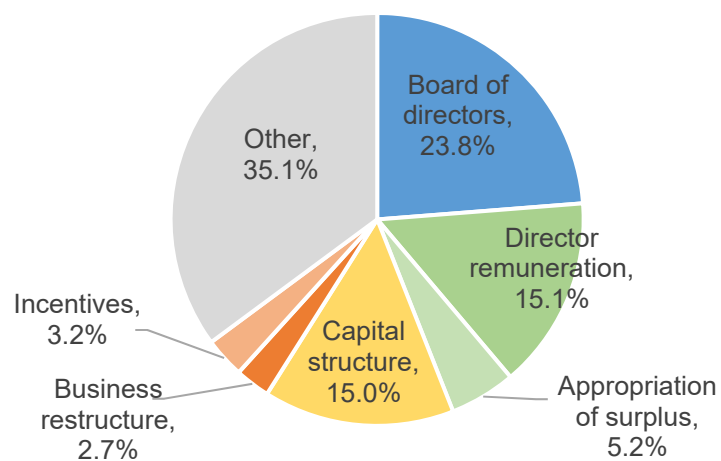
Companies with accounting settlement between April 2017 and March 31, 2018

Proposal Subject		Total		Vote for		Vote against		Vote-against rate in the previous year
			Composition		Rate		Rate	
Total		51,995	100%	46,142	88.7%	5,853	11.3%	10.6%
	c.f. Company Proposal	48,809	93.9%	44,344	90.9%	4,465	9.1%	8.2%
	c.f. Shareholder Proposal	3,186	6.1%	1,798	56.4%	1,388	43.6%	49.7%
By Subject		51,995	100%	46,142	88.7%	5,853	11.3%	10.6%
	Board of Directors/Directors	12,355	23.8%	10,918	88.4%	1,437	11.6%	11.2%
	Director Remuneration, etc.	7,835	15.1%	7,061	90.1%	774	9.9%	10.0%
	Appropriation of Surplus	2,691	5.2%	2,667	99.1%	24	0.9%	1.1%
	Capital Structure	7,777	15.0%	6,614	85.0%	1,163	15.0%	12.4%
	Takeover Defense Measures	384	0.7%	363	94.5%	21	5.5%	9.0%
	Capital Increase or Reduction	3,299	6.3%	2,640	80.0%	659	20.0%	19.3%
	Third Party Allotment of Shares	663	1.3%	590	89.0%	73	11.0%	1.0%
	Acquisition of Own Shares	1,812	3.5%	1,700	93.8%	112	6.2%	3.5%
	Business Restructure	1,429	2.7%	1,242	86.9%	187	13.1%	6.5%
	Incentives Improvement for Executives	1,640	3.2%	1,308	79.8%	332	20.2%	15.6%
	Other proposals	18,268	35.1%	16,332	89.4%	1,936	10.6%	10.9%

*From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock). (The underlined country and stock were newly added in April 2018 to the scope of foreign investments for which voting rights may be exercised.)

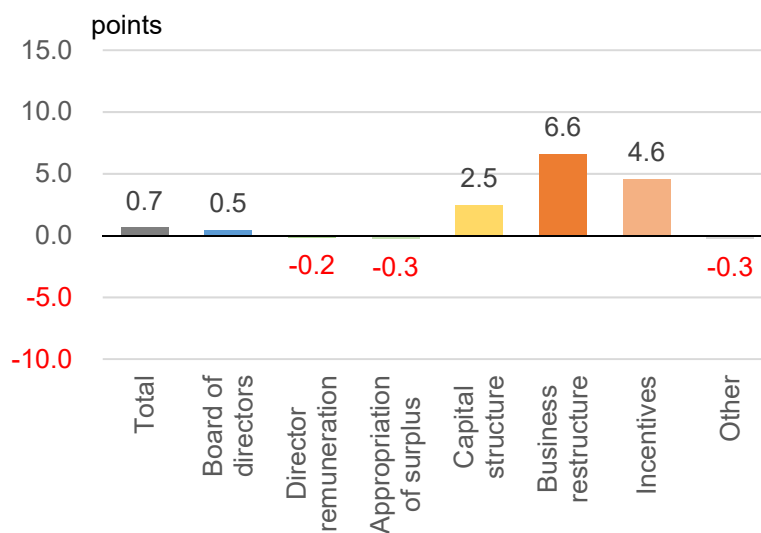
Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)

Companies with accounting settlement between April 2017 and March 31, 2018



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

Companies with accounting settlement between April 2017 and March 31, 2018



Exercise of Voting Rights and Initiatives (Foreign Equities)

4

Examples of the exercise by proposal subject (foreign equities)

(1) Proposals related to the board of directors/directors

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

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

(2) Proposals related to director remuneration, etc.

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

- ✓ A new employment contract with the CEO (including increases in caps on basic remuneration and bonuses) was not sufficiently reasonable relative to the company's profits or compared with the terms of contracts at other companies.

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

The vote-against rate rose from the previous year due to such factors as the addition of Chinese A-shares (traded via Hong Kong Stock Connect) to the scope of foreign investments for which voting rights may be exercised.

(4) Other proposals

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

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Engagement and Initiatives (Foreign Equities)

1

Matters which the Association considers important in relation to engagement activities

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

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

Regarding some asset managers, the Association observed cases in which engagement was regarded as part of research activity.

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

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

(2) Details of engagement

The Association believes that what ultimately influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (See Cases (A) to (C) below).

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

Cases	Details of engagement	
(A)	Dialogue subject	[Dialogue concerning corporate governance] Asset Manager A continuously conducted engagement with respect to the large total amount of long-term incentive-based remuneration at Company A relative to the industry average and a lack of sufficient linkage between the targets that must be achieved for the receipt of remuneration and the actual achievements. Later, while the total amount of long-term incentive-based remuneration was nearly halved, no revision was made with respect to the achievement targets. Therefore, Asset Manager A recommended to the chairman of the company's remuneration committee benchmarks that should be included in the achievement targets.
	Result	The chairman of the remuneration committee promised to discuss revision of the achievement targets, while the board of directors indicated an intention to reform the remuneration system from the viewpoint of promoting the growth of the company's businesses.
(B)	Dialogue subject	[Dialogue concerning management strategy] Although Company B was engaging in multiple individual businesses, its overall corporate value was considered to be lower than the sum of the value of its individual businesses. Therefore, Asset Manager B recommended the spinoff of business divisions into a separate company.
	Result	Company B announced the spinoff of some business divisions into a separate company.
(C)	Dialogue subject	[Dialogue concerning social issue] In light of the fact that abuse of opioid painkillers has become an issue in the United States, Asset Manager C conducted dialogue with a pharmaceutical company with respect to the issue's impact on the company, measures to improve the board of director's supervisory function, the management of sales and distribution networks and efforts to resolve the issue.
	Result	Recognizing abuse of opioid painkillers as an important issue, the pharmaceutical company already scaled back production and is calling for efforts to prevent abuse, mainly by youths and nurses, and it was also learned that the company plans to call for similar efforts by doctors.

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

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

Regarding some asset managers, the Association observed cases in which the effects of engagement were not examined, nor was judgement as to the success or failure of engagement made.

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

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

Cases	Activities of asset managers
(A)	Asset Manager A conducts evaluation as to whether companies take sufficient actions to resolve issues after engagement and achieve sufficient results and makes judgment as to whether the issues still need to be resolved and whether additional efforts to encourage action are necessary on an issue-by-issue basis.
(B)	Since 2000, Asset Manager B has stored the records of engagement in its internal database in order to conduct effective engagement. Twelve months after the implementation of engagement, Asset Manager B conducts a review, and subsequently, it continues to monitor progress. Asset Manager B also conducts analysis from the viewpoint of how much time it takes from the implementation of engagement to any resulting change.

2 Specific examples

Regarding some asset managers, the Association observed cases in which collective engagement and external engagement services were used in order to improve the effectiveness of engagement (see Cases (A) and (B) below).

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

Cases	Activities of asset managers
(A)	In addition to conducting engagement on its own, Asset Manager A is using collective engagement to call on companies conducting activities that violate international rules related to the environment, human rights and labor to correct problems.
(B)	With respect to engagement, Asset Manager B conducts engagement focusing on companies selected by itself in some cases and conducts collective engagement or uses external engagement services in other cases.

Engagement and Initiatives (Foreign Equities)

3 Results of engagement activities (foreign equities)

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

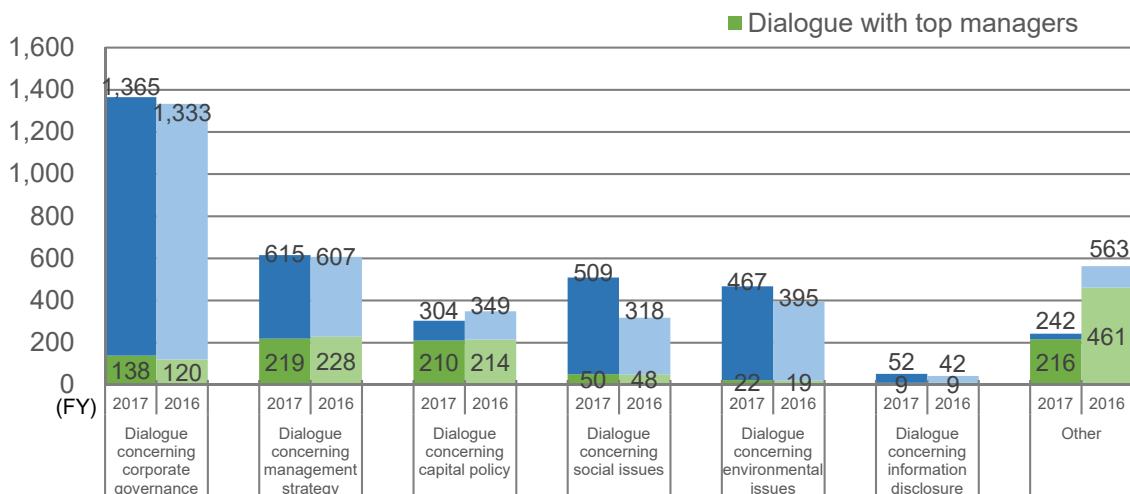
Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2017, the Association implemented engagement with a total of 1,326 companies through 15 asset managers (a total of 18 funds) to which foreign stock investment was entrusted. The number of cases of dialogue was 3,554 (down 1.5% from the previous year).

While some asset managers increased engagement staff or strengthened engagement related to environmental issues, others more strictly defined engagement. As a result, the number of cases of engagement declined slightly.

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

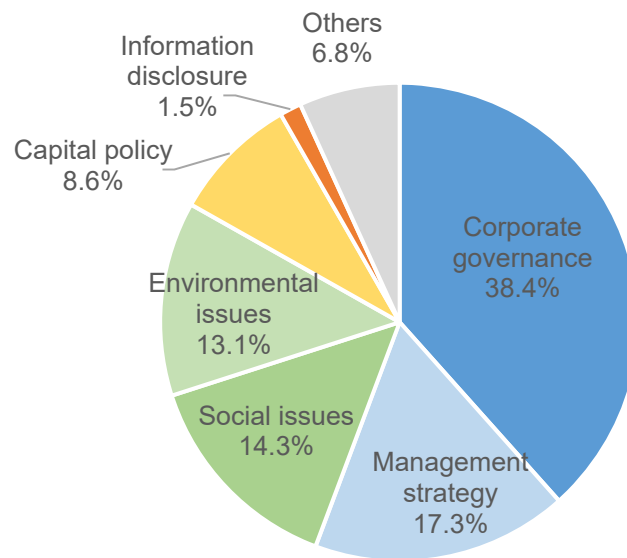
Number of cases of engagement (including overlaps)

From April 2017 to March 2018



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

Number of cases of engagement: Share by dialogue item
From April 2017 to March 2018



1 ESG investment initiative

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

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

The Association started investing in ESG funds in 2010. Subsequently, the Association gradually increased the number of adopted products and the amount of investments. As of the end of December 2018, the Association was entrusting ESG investment through four domestic stock products with a combined market capitalization of 94.2 billion yen (approximately 2% of the outstanding balance of domestic stocks in the Association's portfolio). Based on interviews with asset managers, the Association has confirmed that around 90% of existing active funds give consideration to ESG elements and that ESG elements are mainly used as a supplemental judgement factor for stock selection.

2 Approach to ESG investment

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

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

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

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

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

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

3 Performance of ESG investment

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

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

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

Asset Managers' Recognition of Challenges

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

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

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

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

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

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

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Revision of Guidelines on Stewardship Activity

1

Revision of the Corporate Governance Principles of Pension Fund Association for Local Government Officials

In light of the revision of the Corporate Governance Code by the Tokyo Stock Exchange in June 2018, the Association made the following revisions. (The full text is posted on the Association's website)

- Added the development and implementation of succession plans for Chief Executive Officer (CEO) and other senior posts to the scope of roles and functions of the board of directors.
- Added the designing of the remuneration system and the determination of an actual amount of remuneration to the scope of roles and functions of the board of directors.
- Added the appointment and dismissal of the CEO to the scope of roles and functions of the board of directors.
- Stipulated that when it is necessary to elect a number of independent outside directors equivalent to a third of the total number of directors, a sufficient number of independent outside directors should be secured.
- Created a new section called "Establishment of advisory committees" and stipulated that the Association should require the establishment of independent advisory committees comprised mainly of independent outside directors, such as optional nomination and remuneration committees, under the board of directors.
- Cited gender and international experience as examples of the diversity of the board of directors.
- Cited the possession of the necessary experience, skills and knowledge as an example of the appropriate qualities of auditors.

2

Revision of guidelines for exercising shareholders' voting rights (domestic equities and Foreign Equities)

In light of the contents of this report, the Association revised the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities and Foreign Equities) and explicitly prescribed the following requirements. (The full text is posted on the Association's website)

- Voting rights should be exercised in accordance with the circumstances of companies based on understanding of the purposes of the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities and Foreign Equities).
- The exercise of voting rights and engagement should be conducted in an integrated manner.
- A PDCA cycle of the exercise of voting rights should be developed and utilized in order to enhance the effectiveness of the activity.

Future Initiatives

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

1 Implementation of effective monitoring of asset managers

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

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

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

3 Review of the approach to engagement

From the viewpoint of enhancing the effectiveness and sustainability of engagement conducted by asset managers, the Association continues to study what kind of engagement it should require while examining national trends and monitoring asset managers.

4 Revision of the corporate governance principles, etc.

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

5 Collaboration with other public pension funds, etc.

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

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1 Policy concerning stewardship activity

(1) 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.

(2) 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 Benefit Adjustment Fund and Transitional Long-Term Benefit Adjustment Fund under the pension fund scheme for local government officials and, like any other public pension fund, is considered to have the fiduciary responsibility that consists of the duty of loyalty and the duty of care.

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

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

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

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

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

2. Operation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Chronology of the Association's stewardship activity

2002	May	Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	June	Made revisions so as to require asset managers to exercise voting rights based on discretionary investment contracts.
2004	April	Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed asset managers to exercise voting rights in line with the Guidelines.
2005	June	Announced the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."
2006	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • 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 ESG funds concerning domestic stocks.
	March	Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> • Made an explicit reference to the independence of third-party committees.

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 one ESG fund concerning domestic stocks.</p>
2015	March	<p>Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials."</p> <ul style="list-style-type: none"> • 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	<p>Newly adopted two ESG funds concerning domestic stocks.</p>

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

Reference Materials

3

Reporting items concerning stewardship activity in FY2018 (domestic equities)

No.	Description of report
Q1 Stewardship activities in general	
Q1-1	Attach here a digital file of your statements of intent to follow Japan's Stewardship Code, policy for stewardship activity and self-evaluation of stewardship activity. *If there is any change from the previous year or any change which you are considering making in the future with respect to the statements of intent and policy, describe it and explain the reason. If there are principles or guidelines related to the Japan's Stewardship Code with which you are not complying, specify them and explain the reason for non-compliance.
Q1-2	Explain the specifics of your systems for the fulfillment of the stewardship responsibilities (the number of members comprising each organization, the members, the average years of experience and fields of specialty of the members, the independence of the supervisory organization and third-party committees as well as the roles and authorities). *If there is any change from the previous year or any change which you are considering making in the future, describe it and explain the reason.
Q1-3	If there are challenges recognized by you in relation to the fulfillment of the stewardship responsibilities, cite them.
Q1-4	Submit proposals, if any, in relation to the Association's stewardship activity.
Q2 Exercise of voting rights	
Q2-1	Fill in your company name, information concerning your fund, the number of investee companies related to the exercise of voting rights and the results of the exercise of voting rights. State your opinions concerning factors that caused changes from the same period of the previous year.
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. (no reply area)
Q2-3	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria"). If there is any change from the previous time, describe it and explain the background. Also describe the method of expressing opposition regarding issues related to the composition of the boards of directors and auditors and explain the background and concept behind the adoption of the method.
Q2-4	Describe the process of your most recent exercise of voting rights and explain the reason for and the concept behind the process. Explain the processes of applying the account criteria to individual proposals and reflecting the results of engagement in the exercise of voting rights from the viewpoints of complying with the Association's Guidelines for Exercising Shareholders' Voting Rights (the Association Guidelines) and exercising voting rights in accordance with the circumstances of companies (in a non-mechanical manner). Also describe the specifics of the process of reviewing proposals for and the results of the exercise of voting rights and the account criteria. If you use a paid external service for the exercise of voting rights, specify the name of the service provider, and contents of the service, and explain the position of the service in the process of the exercise of voting rights. *If there is any change which has been made compared with the previous year, describe the contents of and the reason for the change.
Q2-5	Explain the specifics of your policy for and process of supervising the overall exercise of voting rights and your policy and process of managing conflicts of interest related to the exercise of voting rights as well as the reasons for and the concept behind the adoption of those policies and processes. *If there is any change from the previous year, describe it and explain the reason.
Q2-6	If you conduct dialogue with companies about the exercise of voting rights, describe the method of selecting dialogue partner companies and the dialogue method (If you do not conduct such dialogue, explain the reason for that.). *If there is any change from the previous year, describe it and explain the reason. If you explicitly prescribe a policy for dialogue about the exercise of voting rights under your internal regulations, guidelines, etc., explain the policy. If there are cases in which you conducted dialogue with companies about the exercise of voting rights this year, explain specific examples.
Q2-7	If there are cases in which you exercised voting rights in a way deviating from the Association Guidelines in light of your engagement with companies, explain the outlines of up to five cases.
Q3 Treatment of companies that conducted antisocial activity	
Q3-1	Describe specifically how you identify companies which conducted antisocial activity. If there is any change from the previous time, describe it.
Q3-2	Describe how you deal with investee companies engaging in antisocial activity. *Enumerate all such cases.
Q4 Engagement	
Q4-1	Explain your definition and objective of engagement and describe the specifics of your policy for engagement as well as the reasons for and the concepts behind the adoption of the definition, objective and policy. Also explain your approach to engagement with companies ranked low in terms of market capitalization, companies which are reluctant to conduct dialogue and companies which have no awareness about capital markets. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe the efforts. *If there is any change from the previous year, describe it and explain the reason.
Q4-2	Regarding the process of your most recent engagement with individual companies (method of selecting engagement partner companies, the selection of dialogue subjects and methods, setting of challenges for companies, setting of plans (qualitative and numerical targets) and the target achievement period, progress management, monitoring and verification of the effects, and the judgment criteria concerning the success or failure of engagement, etc.), describe the specifics of those processes and explain the reason for and the concept behind the use of the processes. When you are using an external engagement service, specify the name of the service provider, and explain the reason for the adoption of the provider, the contents of the service and the importance of the service for the engagement implementation processes. *If there is any change from the previous year, describe it and explain the reason.
Q4-3	Describe the specifics of your policy for and process of supervising the overall engagement activities (rather than specific engagement activities), your policy of and processes of management of conflicts of interest related to engagement, and the reasons for and the concept behind the adoption of the policies, supervisory items, and processes. *If there is any change from the previous year, describe it and explain the reason.
Q4-4	Describe up to eight specific cases of engagement conducted this year with respect to relevant funds (at least three should be cases related to corporate governance). Regarding dialogue with companies, describe dialogue scenes, partners, contents, companies' response, and your handling of the dialogue. Explain the results of engagement activities, your evaluation of the results, and the experience, knowledge and implications obtained through engagement with respect to future activities.
Q4-5	Describe your definition of the quality of engagement and your initiatives to enhance the quality. *If there is any change from the previous year, describe it and explain the reason.
Q4-6	Describe your mechanism for ensuring the sustainability of engagement activity (intra-company sharing of information, skills improvement, training and organizational systems, etc.). *If there is any change from the previous year, describe it and explain the reason.
Q4-7	Specify the number of companies with which you conducted engagement this year and the number of major cases of engagement with respect to relevant funds. State your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of engagement should not include questionnaire surveys, seminars, or large conferences).

Reporting items concerning stewardship activity in FY2018 (foreign equities)

No.	Description of report
Q1	Stewardship activities in general
Q1-1	Explain the specifics of your policies and systems for the fulfillment of the stewardship responsibilities (the number of members comprising each organization, the members, the average years of experience and fields of specialty of the members, the independence of the supervisory organization and third-party committees as well as the roles and authorities). *If there is any change from the previous year or any change which you are considering making in the future, describe it and explain the reason.
Q1-2	If there are challenges recognized by you in relation to the fulfillment of the stewardship responsibilities, cite them.
Q1-3	Submit proposals, if any, in relation to the Association's stewardship activity.
Q1-4	If you entrust investment to an external organization, describe your monitoring system and process regarding the organization's overall stewardship activities and the specifics of the activities.
Q2	Exercise of voting rights
Q2-1	Fill in your company name, information concerning your fund, the number of investee companies related to the exercise of voting rights and the results of the exercise of voting rights. State your opinions concerning factors that caused changes from the same period of the previous year.
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. (no reply area)
Q2-3	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria"). If there is any change from the previous time, describe it and explain the background. *Describe the specific criteria (rather than approaches.)
Q2-4	Describe the process of your most recent exercise of voting rights and explain the reason for and the concept behind the process. Explain the processes of applying the account criteria to individual proposals and reflecting the results of engagement in the exercise of voting rights from the viewpoints of complying with the Association's Guidelines for Exercising Shareholders' Voting Rights (the Association Guidelines) and exercising voting rights in accordance with the circumstances of companies (in a non-mechanical manner). Also describe the specifics of the process of reviewing proposals for and the results of the exercise of voting rights and the account criteria. If you use a paid external service for the exercise of voting rights, specify the name of the service provider, and contents of the service, and explain the position of the service in the process of the exercise of voting rights. *If there is any change which has been made compared with the previous year, describe the contents of and the reason for the change.
Q2-5	Explain the specifics of your policy for and process of supervising the overall exercise of voting rights and your policy and process of managing conflicts of interest related to the exercise of voting rights as well as the reasons for and the concept behind the adoption of those policies and processes. *If there is any change from the previous year, describe it and explain the reason.
Q2-6	If you conduct dialogue with companies about the exercise of voting rights, describe the method of selecting dialogue partner companies and the dialogue method (If you do not conduct such dialogue, explain the reason for that.). *If there is any change from the previous year, describe it and explain the reason. If you explicitly prescribe a policy for dialogue about the exercise of voting rights under your internal regulations, guidelines, etc., explain the policy. If there are cases in which you conducted dialogue with companies about the exercise of voting rights this year, explain specific examples.
Q2-7	If there are cases in which you exercised voting rights in a way deviating from the Association Guidelines in light of your engagement with companies, explain the outlines of up to five cases.
Q2-8	In relation to the accounts entrusted by the Association, if there are cases in which you did not exercise voting rights with respect to companies in countries within the scope of the exercise of voting rights, specify the names of the companies and explain the reasons for non-exercise. *Enumerate all such cases.
Q2-9	If you entrust investment to an external organization, describe your monitoring system and process regarding the organization's overall exercise of voting rights and the specifics of the activities.
Q3	Treatment of companies that conducted antisocial activity
Q3-1	Describe specifically how you identify companies which conducted antisocial activity. If there is any change from the previous time, describe it.
Q3-2	Describe how you deal with investee companies engaging in antisocial activity. *Enumerate all such cases.
Q4	Engagement
Q4-1	Explain your definition and objective of engagement and describe the specifics of your policy for engagement as well as the reasons for and the concepts behind the adoption of the definition, objective and policy. Also explain your approach to engagement with companies ranked low in terms of market capitalization, companies which are reluctant to conduct dialogue and companies which have no awareness about capital markets. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe the efforts. *If there is any change from the previous year, describe it and explain the reason.
Q4-2	Regarding the process of your most recent engagement with individual companies (method of selecting engagement partner companies, the selection of dialogue subjects and methods, setting of challenges for companies, setting of plans (qualitative and numerical targets) and the target achievement period, progress management, monitoring and verification of the effects, and the judgment criteria concerning the success or failure of engagement, etc.), describe the specifics of those processes and explain the reason for and the concept behind the use of the processes. When you are using an external engagement service, specify the name of the service provider, and explain the reason for the adoption of the provider, the contents of the service and the importance of the service for the engagement implementation processes. *If there is any change from the previous year, describe it and explain the reason.
Q4-3	Describe the specifics of your policy for and process of supervising the overall engagement activities (rather than specific engagement activities), your policy of and processes of management of conflicts of interest related to engagement, and the reasons for and the concept behind the adoption of the policies, supervisory items, and processes. *If there is any change from the previous year, describe it and explain the reason.
Q4-4	Describe up to eight specific cases of engagement conducted this year with respect to relevant funds (at least three should be cases related to corporate governance). Regarding dialogue with companies, describe dialogue scenes, partners, contents, companies' response, and your handling of the dialogue. Explain the results of engagement activities, your evaluation of the results, and the experience, knowledge and implications obtained through engagement with respect to future activities.
Q4-5	Describe your definition of the quality of engagement and your initiatives to enhance the quality. *If there is any change from the previous year, describe it and explain the reason.
Q4-6	Describe your mechanism for ensuring the sustainability of engagement activity (intra-company sharing of information, skills improvement, training and organizational systems, etc.). *If there is any change from the previous year, describe it and explain the reason.
Q4-7	Specify the number of companies with which you conducted engagement this year and the number of major cases of engagement with respect to relevant funds. State your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of engagement should not include questionnaire surveys, seminars, or large conferences).
Q4-8	If you entrust investment to an external organization, describe your monitoring system and process regarding the organization's overall engagement activities and the specifics of the activities.