

Policy to Fulfill Stewardship Responsibilities

1. Approach to stewardship

Stewardship activities refer to activities by institutional investors aimed at enhancing the mid-and long-term investment returns for their clients and beneficiaries by increasing the corporate value of investee companies and promoting sustainable market growth through the exercise of shareholder voting rights and engagement (constructive “purposeful dialogue” based on in-depth knowledge of the investee companies and their business environments and on consideration of sustainability including ESG factors in line with investment strategies).

The Pension Fund Association for Local Government Officials (“PAL”) actively engages in stewardship activities to fulfill its fiduciary responsibility of increasing the value of its assets for members, etc. over the long term, while also remaining mindful of its social responsibility as a public pension fund and acknowledges the principles of the Japan’s Stewardship Code.

PAL believes that, given its approach to fund management involves investing in companies through external asset managers, it is also effective to carry out stewardship activities through these asset managers, which have many opportunities to interact with companies and possess in-depth knowledge of corporate management.

Based on this approach, PAL will continue to fulfill its stewardship by engaging in the following stewardship activities in order to increase long-term investment returns for members, etc. through the sustainable growth of investee companies and the financial markets.

[Stewardship activities of PAL]

- ▶ Present PAL's policies regarding stewardship activities, such as the "Corporate Governance Principles of the Pension Fund Association for Local Government Officials" and the "Guidelines for Exercising Shareholders' Voting Rights," and require external asset managers to engage in stewardship activities in accordance therewith.
- ▶ Each fiscal year, receive detailed reports from the asset managers on their policies, structures, and examples of activities, etc. regarding stewardship, and conduct monitoring.
- ▶ Based on the information gathered through monitoring, publish a report summarizing PAL's stewardship activities each fiscal year, and strive to disseminate the status of initiatives in line the principles of the Japan's Stewardship Code and best practices of the efforts of the assets managers.

2. Approach to stewardship activities by asset managers

PAL believes it is important to exercise voting rights and implement engagement appropriately based on the circumstances of individual companies, while considering the policies of PAL, rather than applying uniform criteria.

To that end, PAL requires asset managers to engage in stewardship activities that take into account the circumstances of each investee company by presenting the following “Matters prioritized by PAL in its stewardship activities”.

In each fiscal year’s monitoring, PAL checks the approach and specific stewardship activities of asset managers, focusing on the quality, not only in terms of formal aspects such as their implementation structure, but also from the perspective of whether their activities are based on in-depth knowledge of the investee companies and their business environments, etc. and consideration of sustainability in accordance with investment strategies.

Furthermore, PAL verifies whether its policies, such as the Guidelines for Exercising Shareholders’ Voting Rights, are in accordance with the actual circumstances of companies and the market, and revises them as necessary.

[Matters prioritized by PAL in its stewardship activities]

[Engagement]

- (i) Implementation of engagement aimed at enhancing corporate value and achieving sustainable growth
- (ii) Quality of engagement
- (iii) Effectiveness of processes (PDCA cycle, etc.)

[Exercise of voting rights]

- (i) Compliance with PAL’s Guidelines for Exercising Shareholders’ Voting Rights
- (ii) Exercise of voting rights in line with company circumstances
- (iii) Integrated management of exercise of voting rights and engagement

3. Coordination with other organizations

To enhance the effectiveness and efficiency of stewardship activities, PAL promotes coordination with other associations, for example, other mutual aid associations for local government officials and other public pension funds.

Also, PAL accumulates knowledge on stewardship activities and strives to improve its

assessment and monitoring methods through the communication with entrusted asset managers. Additionally, PAL seeks to promote mutual understanding by exchanging opinions with investee companies while PAL affords due care not to have a direct impact on the business management of private sector companies.