
FY2020 Annual Stewardship Activity Report

March 2021

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[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

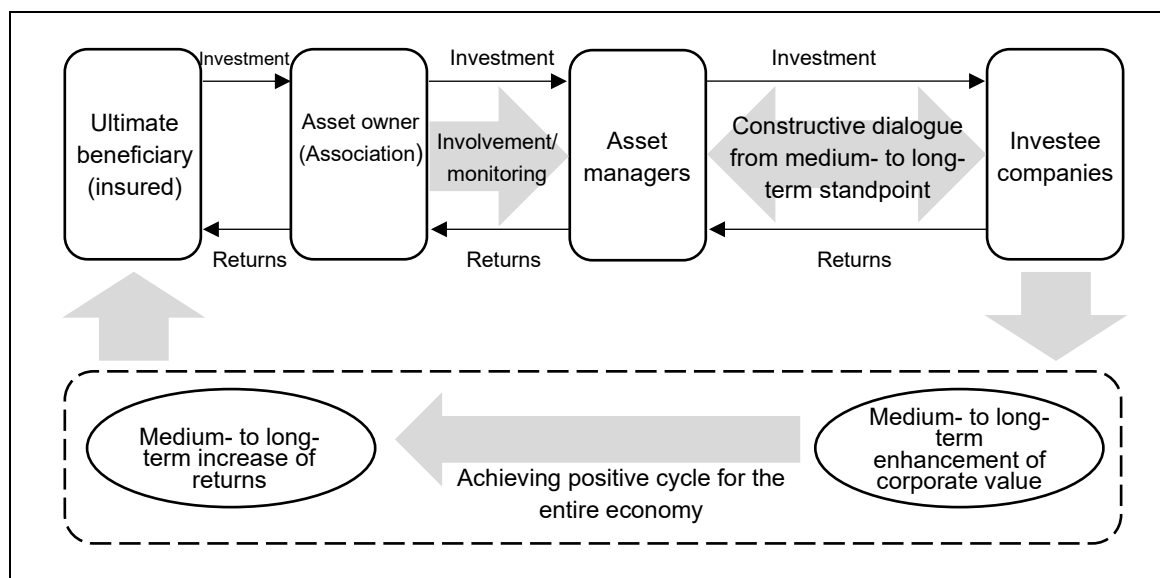
"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive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

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 stock investments in companies. The Association believes that conducting the stewardship activities through these asset managers is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.

[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 basic policies 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 by signing up to the revision of the Stewardship Code. Further, in connection with the announcement of the second revision of the Japan's Stewardship Code in March 2020, the Association revised its Signup to Japan's Stewardship Code in September of the same year.

The Association has started investing in ESG fund in 2010, and has entrusted ESG investment through seven domestic stock products. In addition, in 2019, the Association started investing in ESG bonds as part of in-house investment in domestic bonds.

[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).
2019	<ul style="list-style-type: none"> - Started investing in ESG bonds as part of in-house investment in domestic bonds.
2020	<ul style="list-style-type: none"> - Signed up to Japan's Stewardship Code (Second revised version). - Newly added five products to ESG fund concerning domestic equities.

*See pages 55 through 57 for details.

2 Monitoring of asset managers

For each fiscal year, the Association has been monitoring the stewardship activities of the asset manager of 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 May 2020, the Association held briefing meetings (by means of document, due to the COVID-19 pandemic) on the direction of the Association's stewardship activity for asset managers entrusted with domestic and foreign stock investment (26 companies in total) in FY2020 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
- (iii) 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) Quality of engagement
- (iii) Effectiveness of processes (e.g., PDCA cycle)

In July, the Association requested all asset managers entrusted with stock investment to submit reports on policies, structures, processes for and results of stewardship activities of FY2019. Based on the reports submitted, the Association held interviews focused on the matters which the Association considers important in relation to stewardship activities (October 15 to 30, 2020).

In June, the Association provided feedback regarding the evaluation of stewardship activities in FY2019 individually to asset managers that requested it.

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.

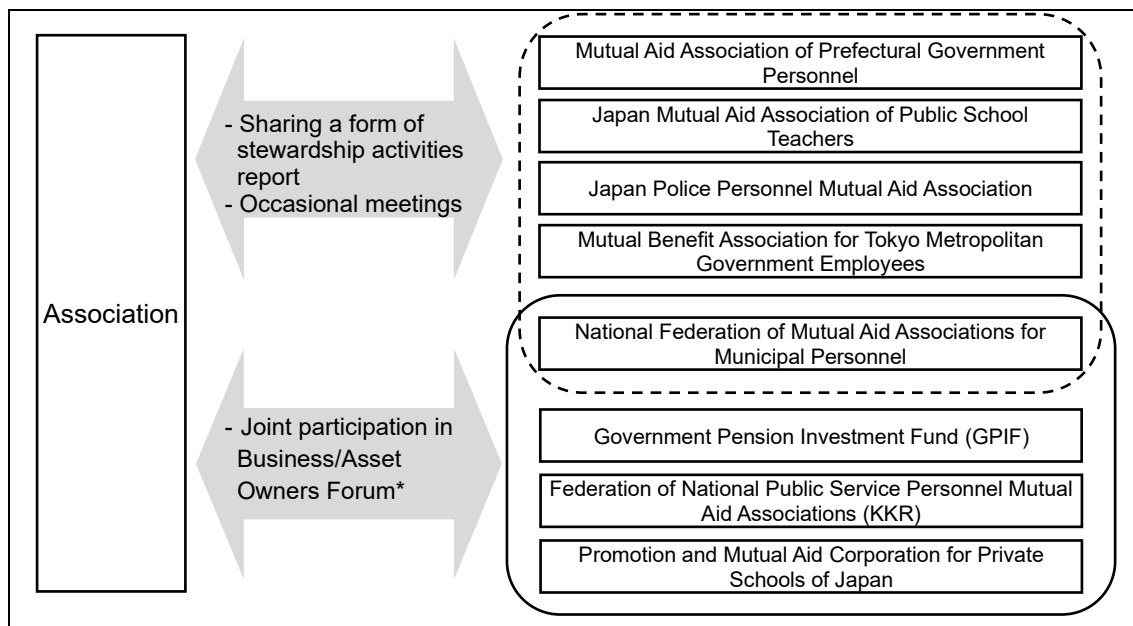
The Association's stewardship activity in FY2020 and the matters observed through monitoring will be described in the Review of Operations for FY2020 (scheduled to be published in FY2021).

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 on an as-needed basis 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 about constructive dialogue with asset managers 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.]



※ Due to the COVID-19 pandemic, the forum for this fiscal year was canceled.

1

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

(1) Compliance with the Association's Guidelines for Exercising Shareholders' Voting Rights (domestic equities)

It was learned that all asset managers entrusted with domestic stock investment by the Association exercise voting rights in accordance with account criteria (specific criteria for exercising voting rights related to accounts entrusted by the Association) reflecting the Guidelines on Domestic Equities.

It was also learned that some asset managers have established an excellent process of more objectively observing compliance with the Guidelines on Domestic Equities, as divisions, sections, or committees other than those responsible for the exercise of voting rights examine compliance with those guidelines.

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

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

The Association observed cases in which some asset managers 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 Cases (A) and (B) below).

It was learned that when exercising voting rights in ways deviating from the principles of the account criteria, for example by reflecting the contents of engagement, more than half of asset managers make judgement separately, through a collegiate body such as a committee. This means that they are engaging in the excellent initiative of managing conflicts of interest by making decisions through a collegiate body while seeking to exercise voting rights in ways suited to the circumstances of investee companies.

The Association also recognized excellent initiatives conducted by an asset manager, such as an initiative to improve the effectiveness of the exercise of voting rights by seeking advice on proposals that may require the management of conflicts of interest from a proxy advisor that conducts engagement by itself, in addition to a proxy advisor of a general type, and an initiative to periodically examine proxy advisors' advice-providing ability by providing feedback as necessary to ensure appropriate advice.

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 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 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	We make positive decisions for a reduction in the number of directors, excluding outside directors. (...) we vote against an increase in the number of directors in principle, unless clear and rational explanations are provided for the increase.
	Response of asset managers	Asset Manager A voted for a proposal for the election of an additional internal director, based on a judgment that the candidate has played a major role in exploring and developing the company's core business and is expected to continue to take up an important role, and therefore promoting the candidate to the director's position is consistent with the company's business management strategy.
(B)	Provisions of Guidelines	... persons covered by bonus programs linked to stock prices, should be limited to those who are suitable for them. Specifically, we make negative decisions against granting such rights to outside directors who are expected to serve an oversight function over the management team.
	Response of asset managers	Asset Manager B voted for a proposal on a restricted stock compensation plan for outside directors (not performance-linked), as it judged the plan to be necessary for retaining capable outside directors and designed to appropriately avoid the concern of watering down the check-and-balance function expected of an outside director.

Exercise of Voting Rights and Initiatives (Domestic Equities)

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

It was learned that all asset managers entrusted with domestic stock investment by the Association implement the exercise of voting rights and engagement in an integrated manner (see Cases (A), (B) and (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)	<p>Asset Manager A informed Company A, a company with a large number of stable shareholders through cross-shareholdings, of its vote against a proposal for maintaining takeover defense measures as such situation of shareholdings may have led to less stringent business management disciplines, disincentivizing the company executives from seeking the enhancement of corporate value.</p> <p>In response, Company A explained that it decided to maintain takeover defense measures as it plans to make the largest-ever capital investment in the mid-term management plan period during which it will face a higher risk of hostile takeover. However, Company A said it was also aware of the growing difficulty of obtaining shareholders' consent and intends to consider reducing the cross-shareholdings in the future.</p>
(B)	<p>Concerning a proposal for election of directors to be submitted to the next general shareholders' meeting, Asset Manager B suggested Company B whose parent company needs to protect the interests of general shareholders to increase the ratio of independent outside directors, as the present rate was considered to be insufficient.</p> <p>At the general shareholders' meeting, a proposal to increase the ratio of outside directors to one-third of directors by reducing the number of internal directors and increasing the number of outside directors was presented, so Asset Manager A voted for this proposal.</p>
(C)	<p>Concerning Company C's proposal for the election of an outside director to be presented at the next general shareholders' meeting, Asset Manager C had doubt about the independence of the candidate and discussed with the company whether the board of directors is effectively functioning and assuring its supervisory function.</p> <p>Company C responded that it shared the same problem consciousness and was considering coping with the situation. The candidate in question was once elected at a general shareholders' meeting, but later announced to resign. At the next annual general shareholders' meeting, several new outside directors including female members were appointed and the company announced the creation of a nomination and compensation committee, both of which indicate improvement in the governance structure.</p>

2 Specific examples

Regarding some asset managers, the Association observed cases of excellent initiatives in which a conference body or organization including outsiders was used to objectively examine the validity of judgment concerning the exercise of voting rights and the account criteria for exercising voting rights (see Cases (A) and (B) below).

It was learned that more than half of asset managers revised their respective account criteria for such purposes as requiring investee companies to enhance their governance.

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)	At Asset Manager A, a section responsible for the exercise of voting rights examines proposed voting decisions in advance and a collegiate body relating to the exercise of voting rights that includes outside members examines the appropriateness of voting decisions that may involve conflicts of interest. The results of the exercise of voting rights are reviewed by staff members that are different from those who generated the proposed voting decision, while an internal audit section examines the validity of the results of individual exercise of voting rights. The revision of criteria for exercise of voting rights requires review by a third-party committee of which the majority are outsiders. In addition, an internal audit section independent from the third-party committee audits processes for adopting rules and regulations on exercise of voting rights, and reports the audit results to the board of directors and board of auditors.
(B)	At Asset Manager B, a collegiate body supervising stewardship activity, together with a third-party committee of which the majority are outsiders, verify the results of the exercise of voting rights by individual companies and proposals, including the exceptional cases of voting judgment deviating from the criteria. With respect to the validity of account criteria, Asset Manager B also assesses the necessity for the review of judgment criteria, taking into consideration the practices of other asset managers and prior cases of exceptional judgment.

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 19 asset managers entrusted with domestic stock investment (35 funds in total), with respect to a total of 13,504 companies which settled accounts between April 2019 and March 2020. The number of proposals for which voting rights were exercised was 46,058.

Of the 46,058 proposals, 10,887 (including 1,465 shareholder proposals) were voted against, translating into a vote-against rate of 23.6% (down 1.3 point from the previous year). The vote-against rate concerning company proposals was 21.2% (down 1.8 point).

The vote-against rate came to 37.0% (down 2.6 points) concerning proposals related to the board of directors/directors, 18.6% (down 3.0 points) concerning proposals related to the board of auditors/auditors and 20.8% (down 3.4 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.

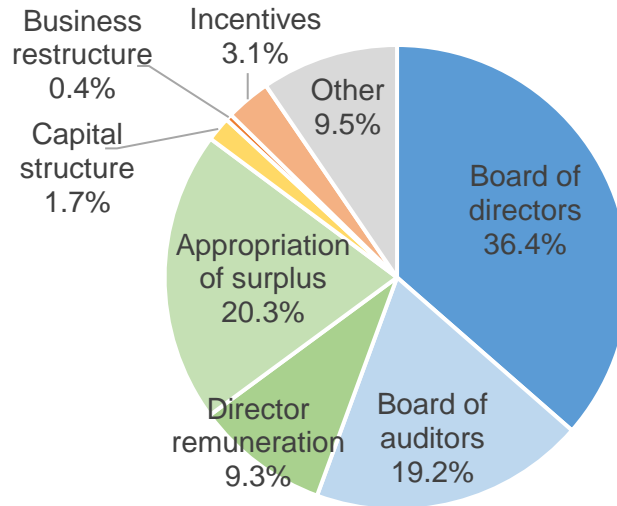
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	46,058	100%	35,169	76.4%	10,887	23.6%	24.9%
c.f. Company Proposal	44,486	96.6%	35,062	78.8%	9,422	21.2%	23.0%
c.f. Shareholder Proposal	1,572	3.4%	107	6.8%	1,465	93.2%	93.6%
By Subject	46,058	100%	35,169	76.4%	10,887	23.6%	24.9%
Board of Directors/Directors	16,781	36.4%	10,572	63.0%	6,209	37.0%	39.6%
Board of Auditors/Auditors	8,825	19.2%	7,182	81.4%	1,643	18.6%	21.6%
Director Remuneration, etc.	4,288	9.3%	3,397	79.2%	890	20.8%	24.2%
Appropriation of Surplus	9,336	20.3%	9,130	97.8%	205	2.2%	4.4%
Capital Structure	786	1.7%	276	35.1%	510	64.9%	59.3%
Takeover Defense Measures	509	1.1%	44	8.6%	465	91.4%	83.3%
Capital Increase or Reduction	28	0.1%	28	100%	0	0.0%	0.0%
Third Party Allotment of Shares	91	0.2%	85	93.4%	6	6.6%	5.7%
Acquisition of Own Shares	52	0.1%	14	26.9%	38	73.1%	100.0%
Business Restructure	207	0.4%	206	99.5%	1	0.5%	0.0%
Incentives Improvement for Executives	1,440	3.1%	1,259	87.4%	181	12.6%	19.9%
Other proposals	4,395	9.5%	3,147	71.6%	1,248	28.4%	23.8%

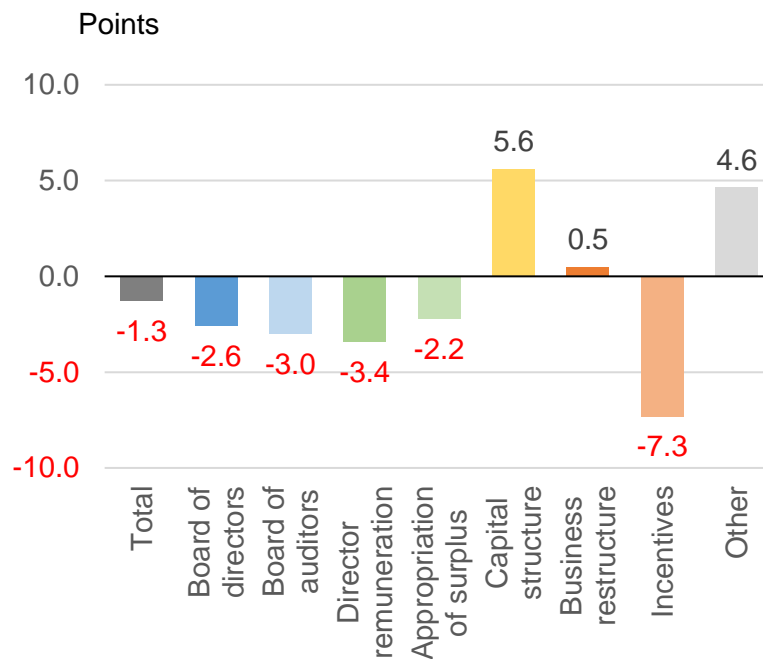
* The total figures shown in the columns of proposal on director remuneration, etc. and the proposal on appropriation of surplus include the number of abstained votes, respectively.

Exercise of Voting Rights and Initiatives (Domestic Equities)

Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020



Changes in the vote-against rate (compared with the previous year) (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020



4**Examples of the exercise by proposal subject (domestic equities)****(1) Proposals related to the board of directors/directors**

The vote-against rate declined to 37.0% from the previous year, for reasons such as a decrease in the number of proposals for increasing the number of internal directors without well-grounded reasons and an increase in the number of proposals for electing outside directors satisfying the criteria for independence, although some asset managers tightened their criteria for the composition ratio of independent outside directors of the board of 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 a candidate for outside director because the candidate had entered into a legal counsel contract with the company.
- ✓ There was a problem with the independence of a candidate for outside director because the candidate had already served in the post for a long period of time.
- ✓ With respect to the election of a representative director, the number of statutory auditors was reduced without clear and well-grounded reasons.

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

The vote-against rate declined from the previous year for reasons such as an increase of proposals satisfying the criteria related to outside auditors' independence, while some asset managers tightened the criteria.

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 the candidate for outside auditor because the candidate formerly worked for a law firm providing legal counsel service to the company.
- ✓ There was a problem with the independence of the candidate for outside auditor because the candidate had already served in the post for a long period of time.

(3) Proposals related to director remuneration, etc.

The vote-against rate declined from the previous year due to such factors as a decrease in the number of proposals for the payment of directors' bonuses to inappropriate persons such as outside directors, despite an increase in the number of proposals for the payment of retirement allowances without disclosure of the amount and some asset managers revising the criteria to require a vote against such proposal in principle.

Proposals were voted against in the following cases:

- ✓ The proposal for the payment of retirement allowance without disclosing the amount was judged to involve a risk of damaging shareholder value.
- ✓ The governance was considered to be insufficient for such reasons as lack of an independent compensation committee.
- ✓ The proposal for the payment of directors' bonuses included a proposed payment to a director who is a member of the audit and supervisory committee.

(4) Proposals related to appropriation of surplus

The vote-against rate remained low as it did in the previous year as the presence of asset managers making judgment taking into account the impact of the COVID-19 situation on the investee company's business performance.

Proposals were voted against in the following cases:

- ✓ The total return ratio was low despite the possession of a large amount of surplus funds and the company's good financial standing.

(5) Proposals related to capital structure

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 the independence of board of directors to be applied to a proposal for hostile takeover defense measures.

Proposals were voted against in the following cases:

- ✓ It was judged that the criteria for invoking takeover defense measures were not clear.
- ✓ Because the independence of the board of directors was not sufficiently ensured, it was judged that the company failed to secure objective judgment on invoking hostile takeover defense measures.
- ✓ It was not clear from the proposal for hostile takeover defense measures whether the convocation of a general shareholders' meeting is required for confirming the intention of shareholders.

(6) Proposals related to business restructure

The number of proposals declined from the previous year. Only few proposals were voted against.

(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 proposals satisfying the criteria for a period of restriction on share transfer and the scope of executives eligible for the plan.

Proposals were voted against in the following cases:

- ✓ The length of period of restriction on a performance-linked stock compensation with restriction on share transfer was determined to be inappropriate.
- ✓ The length of period of restriction on the exercise of share option relating to a stock option plan was determined to be inappropriate.
- ✓ The stock option plan was available even to those who are expected to play supervisory function, such as outside directors.

(8) Other proposals

The vote-against rate rose from the previous year due to such factors as an increase in the number of shareholder proposals that are unlikely to contribute to enhancing the corporate value.

1

Matters which the Association considers important in relation to engagement activities

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

The Association confirmed that all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth and that they are conducting engagement concerning sustainability issues in a way connected to these purposes.

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 corporate values and sustainable growth of investee companies."

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

(2) Quality of engagement

The Association believes that the most important factor that influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (See Cases (A) to (E) 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 ("G" of ESG)] Asset Manager A, from the standpoint of protection of shareholders' interests, required Company A to revise its articles of incorporation to enable the appropriation of surplus subject to a resolution of a general shareholders' meeting, in addition to the current provision of the articles of incorporation requiring only a resolution of the board of directors.
	Result	A proposal to amend the articles of incorporation in this connection was submitted at the subsequent general shareholders' meeting.
(B)	Dialogue subject	[Dialogue concerning management strategy] Asset Manager B encouraged Company B to review its position of businesses with low capital productivity or less profitable businesses so as to ensure sufficient growth investment on promising core businesses and to achieve the medium-term business target.
	Result	Later, Company B executed a letter of intent on the transfer of businesses for which the review was requested.
(C)	Dialogue subject	[Dialogue concerning capital policy] Asset Manager C was consulted with by Company C, seeking an opinion as to the appropriateness of a new fund procurement means, in an effort to enhance its long-term shareholder value as encouraged by Asset Manager C. In response, Asset Manager C advised that such means would not be appropriate as it may be detrimental to shareholder value.
	Result	After engagement, Company C decided not to adopt the fund procurement means that was deemed inappropriate, and announced an increase of the dividend payment ratio with a view to enhancing return on asset.
(D)	Dialogue subject	[Dialogue concerning environmental ("E" of ESG) issues] Company D had a plan to review its business portfolio with a view to coping with climate change challenges. In line with this, Asset Manager D requested Company D to publicly disclose information according to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), together with the effect of review of its business portfolio.
	Result	After engagement, Company D established its CO2 reduction goals consistent with long-term objectives under the Paris Agreement and announced its support of TCFD, in addition to the creation of a new committee for promoting SDGs.
(E)	Dialogue subject	[Dialogue concerning social ("S" of ESG) issues] Asset Manager E conducted dialogue with Company E, a company with neither female directors nor directors with experience in management. Asset Manager E encouraged Company E to ensure the diversity of the board of directors so as to enable it to effectively supervise business activities by top managers.
	Result	At the general shareholders' meeting held after engagement, a female director was elected for the first time in the company's history.

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

It was learned that all asset managers are conducting progress management and effect measurement of engagement in a systematic way. For most of them, as a result of the measurement, engagement had effects such as the achievement of and progress towards the goals of engagement.

In addition, some asset managers were conducting an excellent initiative to enhance the effectiveness of engagement, for example by conducting an initiative aimed at a quantitative measurement of contribution of engagement to the improvement of corporate value, and also by conducting a survey of investee companies to measure the effect of engagement and utilizing the survey results for future engagement (See Cases (A) to (E) below).

The Association also recognized an excellent initiative of some asset managers identifying challenges through the measurement of the effect of engagement and revising its process of measurement based on the results of measurement, namely applying a PDCA cycle to measure the effect of engagement.

As engagement is a "purposeful dialogue," the Association believes that it is necessary to enhance the effectiveness of engagement by establishing and utilizing a PDCA cycle including the examination of whether or not the objective has been achieved through engagement.

The Association will require asset managers to enhance the effectiveness of engagement processes in a systematic way, by such way as setting key performance indicators (KPI) and improving processes according to the status of achievement of KPIs.

Cases	Activities of asset managers
(A)	Asset Manager A sets a feasible target for engagement that would have significant bearing on the enhancement of corporate value and performs a qualitative analysis of the status of achievement of the target and the degree of contribution to the increase of stock price.
(B)	Asset Manager B measures, as the effect of engagement, the difference between the corporate value calculated before the dialogue and the corporate value calculated based on a medium- to long-term performance estimate and a discount rate reflecting the results of dialogue. It also measures the fluctuation of the share value when it increases.
(C)	Asset Manager C shares with investee companies key performance indicators (KPI) that lead to the solution of problems, and assesses the outcome of engagement based on such factors as corporate actions in response to problems and the degree of achievement of KPIs. It also checks for the improvement of factors driving corporate value and the valuation on equity markets.
(D)	Asset Manager D divides the excess return of investee companies from the inception of investment into a stock selection effect and an engagement effect under given presumptions and performs quantitative assessment of the effect.
(E)	Asset Manager E conducts a post-engagement survey of investee companies to assess the effect of dialogue by measuring the satisfaction of dialogue and identifying subjects which were useful, results of which will be used for subsequent dialogue.

2 Specific examples

The Association observed some cases of asset managers making efforts to improve the market environment, by such way as participating in policymaking authorities' study groups and committees so that their opinions would be reflected in institutional planning by authorities.

In addition, some asset managers were making efforts to enhance the effectiveness of engagement, for example, by reducing cross-shareholdings through revising criteria for exercise of voting rights and using collaborative engagement, expressly positioning engagement as a part of the investment decision-making process, developing a methodology for quantitative examination of the effect of engagement, and utilizing advanced initiatives of a foreign asset owner for their engagement activity (See Cases (A) to (D) 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, with a view to reducing cross-shareholdings, requires investee companies owning shares in other companies through cross-shareholding to develop and periodically review criteria and processes for decisions relating to cross-shareholdings, and also requires companies that have their business partners hold their shares through cross-shareholding not to impose an obligation to hold their shares in the course of transactions. In addition, Asset Manager A conducts collaborative engagement with respect to companies with challenges.
(B)	In the decision-making process for investment in individual companies, Asset Manager B conducts engagement focusing on companies with high investment potential and clear bottlenecks, manages the progress on a milestone basis and periodically provides the relevant information to analysts and investment staff members.
(C)	Asset Manager C analyzes engagement data in cooperation with academic institutions so as to perform a quantitative examination of the effect of engagement. It also has a plan to utilize the results for the assessment of engagement.
(D)	Asset Manager D studies cutting-edge methodologies for dialogue by making collaborative engagement with a foreign asset owner on such subjects as human rights, supply chain and environmental issues, and leverages the results for its own stewardship activity.

3

Results of engagement activities (domestic equities)

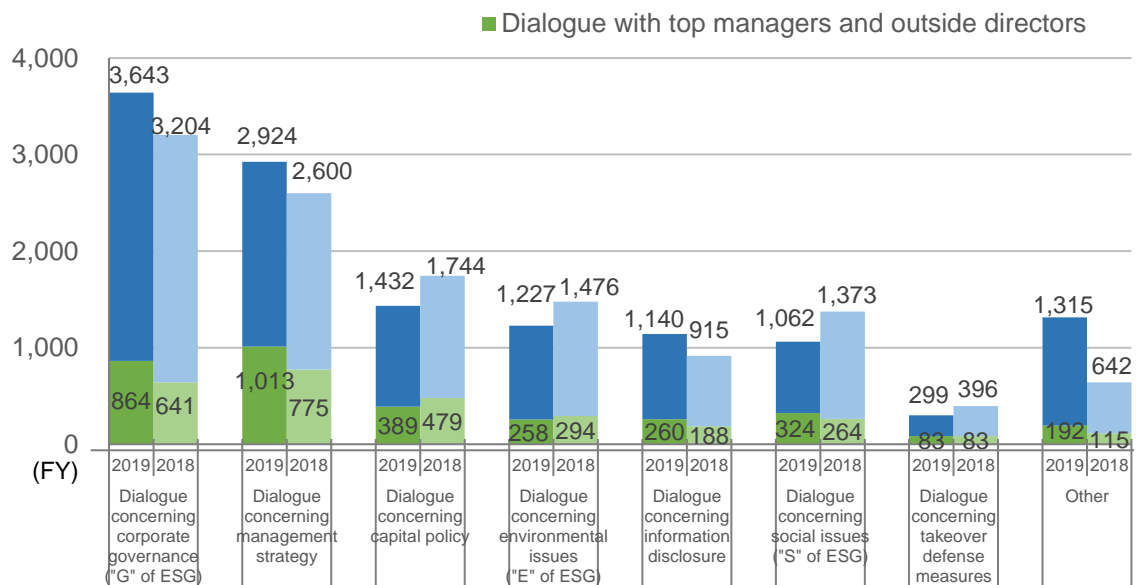
The Association implements engagement activities in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2019, the Association implemented engagement with a total of 3,878 companies through 19 asset managers (a total of 35 funds) to which domestic stock investment was entrusted. The number of cases of engagement was 13,042 (up 5.6% from the previous year).

Despite the impact of COVID-19, the number of engagement activities increased due to the presence of asset managers increasing engagement staff, discussing several subjects in one occasion of engagement, and focusing on engagement concerning non-financial information including ESG factors.

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.

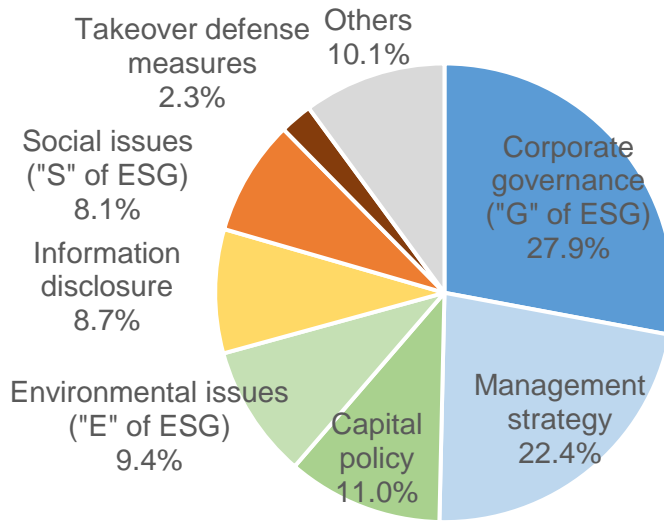
Total number of cases of engagement From April 2019 to March 2020



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

**"Other" includes dialogue concerning issues relating to ESG generally.

Number of cases of engagement: Share by dialogue item
From April 2019 to March 2020



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 all asset managers entrusted with foreign stock investment by the Association exercise voting rights in accordance with account criteria reflecting the Guidelines on Foreign Equities.

The Association also recognized that some asset managers have established an excellent process of more objectively observing compliance with the Guidelines on Foreign Equities, as divisions, sections, or committees other than those responsible for the exercise of voting rights or committees examine compliance with those guidelines.

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 some asset managers exercised voting rights in consideration of the contents of dialogue with companies based on sufficient understanding of the purpose of the Guidelines on Foreign Equities (See Case (A) below).

It was also learned that when exercising voting rights in ways deviating from the principles of the account criteria, for example by reflecting the contents of engagement, most of the asset managers make judgement separately, through a collegiate body such as a committee, etc. This means that they are engaging in an excellent initiative of managing conflicts of interest by making decisions through a collegiate body while seeking to exercise voting rights in ways suited to the circumstances of investee companies.

The Association also recognized a case of an asset manager using proxy advisers specialized in a specific market so as to ensure that the judgment on exercising the voting rights will be informed by more elaborate analysis.

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	With respect to directors' compensation, we make positive decisions for a compensation scheme linked to medium- to long-term corporate performance (...)
	Response of asset managers	Asset Manager A voted against the proposal for the payment of executive bonus to a director/chairperson and CEO, as the basis of calculation of remuneration was not clear due to such reasons as a lack of disclosure of KPI information. Further, the contribution made by the executives was not clear, and the investee company did not provide satisfactory response to the question raised by Asset Manager A.

(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 Cases (A) and (B) 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.

Exercise of Voting Rights and Initiatives (Foreign Equities)

Cases	Response of asset managers
(A)	<p>Asset Manager A conducted dialogue with Company A to discuss a shareholder proposal submitted to the general shareholders' meeting that requests a report on a median value concerning wage disparity based on employees' sex and race.</p> <p>Company A explained that advanced initiatives aimed at promoting diversity were already in place, and proposed that the proposal be voted against as the median value would not precisely reflect the reality of wage disparity, on such reasons as that its female employees tend to opt for a duty allowing them to work flexibly.</p> <p>Eventually, Asset Manager A voted for the shareholder proposal, based on a decision that, although the company's view is understandable, disclosing the median value together with reasonable supplementary information would be useful for shareholders.</p>
(B)	<p>Asset Manager B informed Company B's independent outside director and employees including human resources staff and legal affairs staff of its vote against a proposal for the payment of directors' remuneration as the company's short-term incentive remuneration plan allows higher possibility for directors receiving compensation compared with those of competitors, and the long-term incentive plan is linked to the short-term business performance.</p> <p>In response, Company B explained that it was considering measures such as disclosing more detailed information, in a convocation notice, on the company's policy on director remuneration and a process of determining remuneration at the board of directors; reducing the incentive target for the cash-type incentive plan; introducing multifaceted assessment criteria; and improving the appropriateness of remuneration by changing the benchmark companies against which the remuneration should be determined.</p>

2 Specific examples

Regarding some asset managers, the Association observed cases of excellent initiatives in which a section for which the independence from a section responsible for the exercise of voting rights is ensured and a conference body or organization including outside members were used to examine, in an objective manner, the judgment concerning the exercise of voting rights and the account criteria for exercising voting rights (See Cases (A) and (B) below).

It was also learned that an asset manager revised its account criteria for such purposes as requiring investee companies to enhance their governance.

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)	At Asset Manager A, a section for which the independence from a section responsible for the exercise of voting rights is ensured checks all proposed voting decisions for the compliance with account criteria, and performs an analysis of the results of exercise. On the basis of the analysis, a collegiate body including other sections such as a compliance section as members examines proposals which were voted on contrary to the recommendation by the proxy advisor or which have been constantly voted against. As for the account criteria, a section for which the independence from a section responsible for the exercise of voting rights is ensured examines the difference between clients' criteria and the asset manager's own criteria and evaluates the necessity for the revision in line with the amendment of the client's criteria. In addition, a collegiate body supervising stewardship activity examines the appropriateness of proposals for which voting rights were exercised in a way that deviates from the account criteria and criteria for exercise of voting rights.
(B)	At Asset Manager B, a collegiate body relating to the exercise of voting rights discusses proposed voting decisions and contents thereof, makes voting judgments and also examines and determines the proposed revision to criteria for exercise of voting rights. An internal section for investment supervision monitors the status of management of conflicts of interest and decision-making processes. Based on this information, a third-party committee of which the majority are outside members examines issues relating to a policy and regulations on the exercise of voting rights and whether decisions are made according to these policy and regulations, and reports the results to the board of directors.

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 17 asset managers entrusted with foreign stock investment (25 funds in total), with respect to a total of 9,597 companies which settled accounts between April 2019 and March 2020. The number of proposals for which voting rights were exercised was 86,792.

Of the 86,792 proposals, 11,259 (including 1,577 shareholder proposals) were voted against, translating into a vote-against rate of 13.0% (up 0.9 points from the previous year). The vote-against rate concerning company proposals was 11.8% (up 1.0 point).

The vote-against rate came to 12.9% (down 0.1 points) concerning proposals related to the election of directors, etc. and 12.7% (down 0.1 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.

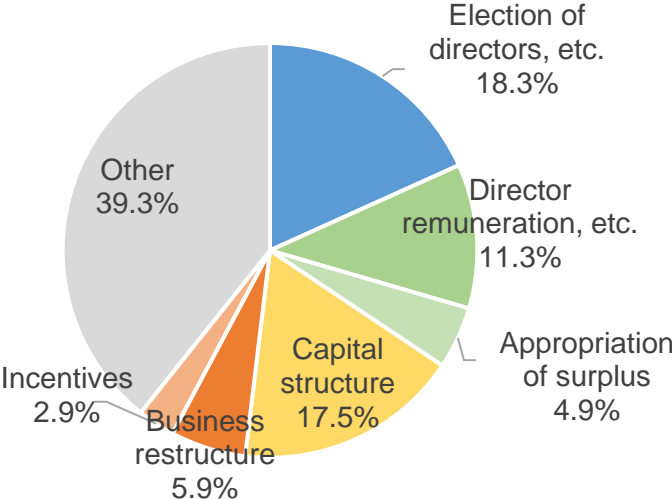
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020

Proposal subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	86,792	100%	75,533	87.0%	11,259	13.0%	12.1%
c.f. Company proposal	81,988	94.5%	72,306	88.2%	9,682	11.8%	10.8%
c.f. Shareholder proposal	4,804	5.5%	3,227	67.2%	1,577	32.8%	35.0%
By subject	86,792	100%	75,533	87.0%	11,259	13.0%	12.1%
Proposal for election of directors, etc.	15,846	18.3%	13,806	87.1%	2,040	12.9%	13.0%
Director remuneration, etc.	9,771	11.3%	8,534	87.3%	1,237	12.7%	12.8%
Appropriation of surplus	4,219	4.9%	4,165	98.7%	54	1.3%	0.8%
Capital structure	15,219	17.5%	12,868	84.6%	2,351	15.4%	15.7%
Takeover defense measures	442	0.5%	429	97.1%	13	2.9%	5.9%
Capital increase or reduction	5,655	6.5%	4,363	77%	1,292	22.8%	27.5%
Third party allotment of shares	2,235	2.6%	2,063	92.3%	172	7.7%	5.9%
Acquisition of own shares	2,694	3.1%	2,623	97.4%	71	2.6%	5.1%
Business restructure	5,107	5.9%	4,228	82.8%	879	17.2%	13.5%
Incentives improvement for executives	2,531	2.9%	1,642	64.9%	889	35.1%	31.8%
Other proposals	34,099	39.3%	30,290	88.8%	3,809	11.2%	9.0%

*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 and regions (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).

Exercise of Voting Rights and Initiatives (Foreign Equities)

Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020



Changes in the vote-against rate (compared with the previous year) (Employees' Pension Insurance Benefit Adjustment Fund)
Companies with accounting settlement between April 2019 and March 2020



4**Examples of the exercise by proposal subject (foreign equities)****(1) Proposals related to election of directors, etc. (board of directors/directors, etc.)**

The vote-against rate remained at almost the same level as that of the previous year in spite of a decrease in the number of proposals for the election of directors with a problem with independence, due to the presence of some asset managers that tightened criteria for allowing directors to assume an executive position with another company or strengthening its system enabling it to appropriately reflect the content of engagement when exercising voting rights.

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 the candidate had already served in the post for a long period of time.
- ✓ A candidate for director was concurrently serving as director at many companies.

(2) Proposals related to director remuneration, etc.

With respect to some asset managers, the vote-against rate rose from the previous year for such reasons as an increase in the number of proposals related to companies where directors with beneficiary rights were involved in decision-making on remuneration due to the increase of adoption of Chinese stocks for the benchmark and an increase in the number of proposals causing concern about the criteria for determining remuneration. However, the vote-against rate in general remained at almost the same level as that of the previous year.

Proposals were voted against in the following cases:

- ✓ The amount of director remuneration is unreasonably high compared to that of competitors.

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

While the number of proposals relating to an inadequate stock incentive plan increased due to the increase of adoption of Chinese stocks for the benchmark, the number of proposals for bond issues for which the vote-against rate is generally low increased. As a result of factors including these, the vote-against rate remained at almost the same level as that of the previous year.

Proposals were voted against in the following cases:

- ✓ The rate of dilution of existing shares that may result from the stock incentive plan is significantly high.
- ✓ The long-term incentive plan lacks a perspective of improving business performance.

(4) Other proposals

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

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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 all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth and that they are conducting engagement concerning sustainability issues in a way connected to these purposes.

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

(2) Quality of engagement

The Association believes that the most important factor that influences the effectiveness of engagement is specific activities that lead to an increase in corporate value (for specific cases, 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 ("G" of ESG)】 Asset Manager A shared with top managers of Company A problem consciousness concerning insufficient diversity of the board, including the absence of female directors, and introduced several capable women who could be nominated as directors using its information networks.
	Result	Company A eventually did not appoint the candidates introduced by Asset Manager A, but appointed another female director.
(B)	Dialogue subject	【Dialogue concerning social ("S" of ESG) issues】 Asset Manager B was concerned that Company B's business model was not considered to be sustainable as the wage for certain category of employees was inappropriate in light of those of comparable entities. Asset Manager B encouraged Company B to make improvement, pointing out objective facts and advantages of improvement measures to top managers.
	Result	Top managers of Company B promised to ensure a reasonable level of employees' wage and obtained certification of the wage level from a private organization requiring employers to ensure a wage level reasonably necessary to support employees' lives.
(C)	Dialogue subject	【Dialogue concerning environmental ("E" of ESG) issues】 In order to promote the reduction of emission of greenhouse effect gas that is important in light of business strategy, Asset Manager C conducted engagement with a chairperson of the executive remuneration committee and top managers of Company C, solely through an ESG analyst well-versed in environmental issues and also collectively through climate change initiatives, so as to encourage the company to set a target for greenhouse effect gas emissions. Asset Manager C also made a proposal to establish a remuneration system that links the remuneration with the emission reduction target and efforts to achieve it.
	Result	Company C announced its net-zero target on reducing greenhouse effect gas emission by 2050 and devised a new compensation plan that secures linkage between the compensation and the reduction target.

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

It was learned that most of the asset managers are conducting progress management and effect measurement of engagement in a systematic way (See Cases (A) and (B) below).

For example, an asset manager deployed a tracking tool for engagement activity for the progress management and effect measurement of dialogue (See (C) below).

As engagement is a "purposeful dialogue," the Association believes that it is necessary to enhance the effectiveness of engagement by establishing and utilizing a PDCA cycle including the examination of whether or not the objective has been achieved through engagement.

The Association will require asset managers to enhance the effectiveness of engagement processes in a systematic way, by such way as setting key performance indicators (KPI) and improving processes according to the status of achievement of KPIs.

Cases	Activities of asset managers
(A)	With a view to strengthen its focus on engagement activity, Asset Manager A deployed an engagement tracking tool which is a shared platform facilitating information sharing within the company, allowing the recording and management of the status through the system in addition to the progress management within each investment team.
(B)	Asset Manager B assigns quantitative scores based on insight from various initiatives and partner asset managers, and measures the effect based on comprehensive quantitative assessment aggregating scores for each item so as to respond to the diversity of issues to be solved.
(C)	Asset Manager C has deployed a tracking tool for engagement activity to accumulate engagement-related data, such as minutes of meetings, in order to perform progress management and effect measurement with reference to a specific quantitative target.

2 Specific examples

It was learned that more than half of the asset managers were making efforts to improve the market environment, by such way as participating in policymaking authorities' study groups and committees and making lobbying efforts targeted at securities exchanges.

In addition, some asset managers were making efforts to enhance the effectiveness of engagement, for example, gaining deeper insight into the risk analysis for climate change to inform their engagement or receiving an audit to confirm the quality of engagement processes (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)	Asset Manager A strengthens its ability to analyze risks associated with climate change by cooperating with third-party expert institutions and retaining specialized analysts in that risk area. It also conducts engagement to call for attention of companies on risk information obtained by the analysis.
(B)	Asset Manager B confirms the quality of its engagement activity by receiving an annual external audit of its engagement process and governance thereof to check the compliance and conducting an internal audit every three years.

3 Results of engagement activities (foreign equities)

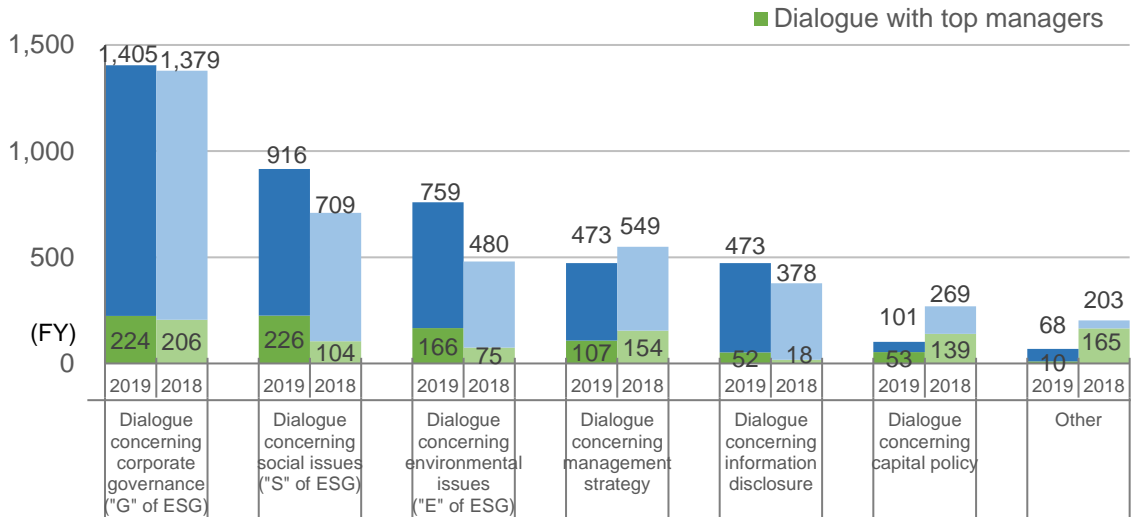
The Association implements engagement activities in relation to the funds invested in equities (Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund).

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2019, the Association implemented engagement with a total of 1,997 companies through 17 asset managers (a total of 25 funds) to which foreign stock investment was entrusted. The number of cases of dialogue was 4,195 (up 5.7% from the previous year).

While with respect to some asset managers the number of cases of engagement significantly declined by such reasons as reduction of the number of engagement staff and change of the method for tabulation, the total number of engagement activities increased due to such reasons as the presence of asset managers strengthening engagement activity focused on ESG issues.

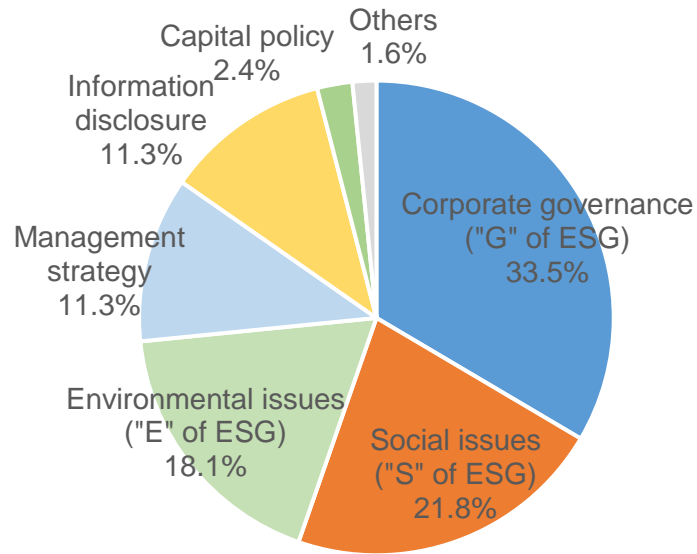
The results of the number of engagement activities in relation to the Transitional Long-term Benefit Adjustment Fund which is managed under the same strategy were the same.

**Total number of cases of engagement
From April 2019 to March 2020**



*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 2019 to March 2020



1 Basic approach to ESG investment

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 assets 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 corporate value and by encouraging efforts to resolve social challenges, such as environmental, human rights and employment issues.

2 ESG investment initiative

With respect to ESG investment, the Association revised its policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund ("basic policy") in line with the Basic Policy for Funds (public notice issued by four ministries) revised in 2020. The Association's basic policy provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

The Association had taken necessary measures for ESG investment based on case-by-case analysis, even before the present basic policy was revised to incorporate provisions concerning investment considering non-financial factors.

As a result of the survey of asset managers, it was confirmed that most of the products adopted by the Association take into consideration ESG factors in the investment process.

The details of the ESG investment initiative for each category of asset are as follows:

(1) Domestic equities

The Association has started investing in ESG products in 2010 with respect to active investment in domestic equities. Subsequently, the Association gradually increased the number of adopted products and the amount of investment.

In light of such factors as growing interest in ESG investment globally, the revision of provisions concerning ESG investment in the Association's policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, and the Japanese government's goal to achieve net-zero emission of greenhouse effect gas by 2050 and to realize carbon-free society, the Association adopted three ESG products for active investment and two ESG products for passive investment in December 2020.

As a result, the Association has adopted seven ESG products as of the end of December 2020 (five products for active investment and two products for passive investment), with market capitalization totaling 844.5 billion yen (approximately 13% of the outstanding balance of domestic stocks in the Association's portfolio).

By adopting ESG products (active investment), the Association seeks to earn an excess return while fully taking into consideration ESG factors in the investment process. In addition, through ESG products (passive investment), it expects to promote sustainable growth of investees and the entire market while curbing the risk of deviation from a policy benchmark to a certain extent.

(2) Domestic bonds

The Association makes investment considering ESG factors as part of in-house investment in domestic bonds.

As a "responsible investor," in order to support the resolution of challenges, such as environmental issues and social challenges facing the community, the Association started investing in products considering ESG factors as part of in-house investment in FY2019. For the time being, the Association intends to make investment mainly in ESG bonds issued by local governments and institutions funded by a fiscal investment and loan program.

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)]

Category	Challenges
Exercise of voting rights/engagement	Strengthen systems (e.g., increase of staff, improvement of specialized skills, creation of a dedicated section and cooperation among sections)
	Effective and efficient management of process for stewardship activity
Exercise of voting rights	Decision on the exercise of voting rights based on the close review of individual proposals
	Further integrated management of the exercise of voting rights and engagement
	Review of account criteria with a view to further improving corporate governance
Engagement	Increase and expansion of scope of subjects for engagement; improve a method for selecting companies with which engagement should be conducted
	Increase dialogue with outside directors; escalate level of engagement for companies for which challenges remain unaddressed
	Progress and improvement of a method for measuring/examining the effectiveness of engagement

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

Category	Challenges
Exercise of voting rights/engagement	Strengthen systems (e.g., increase of staff, improvement of specialized skills, cooperation with third-party organizations, and cooperation among sections)
	Effective and efficient management of process for stewardship activity
	Improvement of reporting to client investors
	Responses to the impact of the COVID-19 pandemic
	Develop original ESG ratings
Exercise of voting rights	Decision on the exercise of voting rights based on the close review of individual proposals (e.g., shareholder proposals)
	Further integrated management of the exercise of voting rights and engagement
Engagement	Escalate level of engagement activity for companies for which challenges remain unaddressed
	Progress and improvement of a method for measuring/verifying the effectiveness of engagement

1 Revision of Signup to Japan's Stewardship Code

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

The summary of the revision is as follows:

<Summary>

- The preface provides that the Association will consider the principles that can be applied to assets other than listed domestic equities and implement necessary initiatives to the extent possible.
- Principle 1 provides that engagement shall be based on in-depth knowledge of investee companies and their business environment and consideration of their sustainability consistent with the investment management strategy, and that the Association will require investment management institutions to clearly specify how they take the issues of sustainability into consideration in their policy, consistent with the investment management strategies of the respective institutions.
- Principle 4 provides that the Association will require investment management institutions to consciously conduct engagement concerning the issues of sustainability that is consistent with the investment management strategies of the respective institutions and that serves the medium- to long-term enhancement of corporate value and sustainable growth of investee companies.
- Principle 5 provides that the Association will require the investment management institutions to disclose their voting rationale with respect to either a “for” or “against” vote that is considered important, and will require the investment management institutions using a proxy advisor to take into account its voting recommendation process and to disclose the name of the proxy advisor and the specific methods of using the service.
- Principle 8 was newly added to provide that the Association will select service providers for institutional investors in relation to its stewardship activity after confirming the service provider's compliance with the Japan's Stewardship Code.

* See pages 52 through 54 for the full text of the Signup to Japan's Stewardship Code.

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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.

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 will conduct dialogue with asset managers about matters of priority and accumulate knowledge concerning stewardship activity.

3 Consideration of expansion of the scope of assets covered by stewardship activities

From the standpoint of fulfilling its stewardship responsibility, the Association has been considering expanding the scope of assets covered by stewardship activities by such way as grasping the status of asset managers conducting stewardship activities relating to assets other than equities and will implement necessary measures to the extent possible.

4 Promotion of investment taking into consideration non-financial factors

From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also continue to conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG factors, in addition to financial factors. Further, the Association will consider supporting the Task Force on Climate-related Financial Disclosures (TCFD).

5 **Revision of the Corporate Governance Principles, etc.**

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

6 **Collaboration with other public pension funds, etc.**

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.

1 Policy concerning stewardship activity

(1) Basic Policy on Funds (Last revised on March 31, 2020)

I. Basic policy on the administration and investment of the EPI benefit adjustment fund

9. Investment considering non-financial elements

With respect to the investment of the EPI benefit adjustment fund, the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

II. Matters to be observed in administering and investing the EPI benefit adjustment fund

3. Actions to fulfill the stewardship responsibilities

Shareholder voting rights shall be exercised so that corporations manage business operations in ways that will maximize the interests of shareholders over the long term.

If the Association individually directs exercise of voting rights, it shall give instructions so that entrusted institutions will exercise them in accordance with the direction. In the case of not individually directing exercise of voting rights, the Association shall have entrusted institutions exercise voting rights in accordance with the Guidelines for Exercising Shareholders' Voting Rights established by the Association in line with the intent of the Corporate Governance Principles established by the Association. Also, the Association shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

In doing so, based on the Principles for Responsible Institutional Investors «Japan's Stewardship Code» (February 26, 2014, by the Council of Experts Concerning the Japanese Version of the Stewardship Code) and Japan's Corporate Governance Code (June 1, 2015, by Tokyo Stock Exchange, Inc.), the Association shall review its Corporate Governance Principles, the Guideline for Exercising Shareholders' Voting Rights, and the like, as necessary, and take actions in line with the basic principles for performing stewardship responsibilities (meaning the responsibilities of institutional investors to enhance the mid- and long-term investment return for their clients and beneficiaries by enhancing and fostering Japanese investee companies' corporate value and sustainable growth through constructive engagement or other means based on in-depth knowledge of the companies, and their business environment). Any review of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights shall be deliberated at the Committee and the status of stewardship activities shall be reported to the Committee in a timely manner. Furthermore, in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities, the Association shall consider exchanging opinions with other implementing organizations, other administration and investment organizations (the 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 the like as well as having a forum for that as necessary.

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

(2) Corporate Governance Principles (Last revised on March 31, 2019)

(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) (Last revised on March 31, 2019)

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) Signup to Japan's Stewardship Code (Last revised on September 25, 2020)

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

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

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

- The Association is required to fulfill its "fiduciary duty to the insured" and "social responsibility as a public pension fund." In this connection, as the means to seek medium- to long-term enhancement of corporate value and sustainable growth of investee companies, the Association is required to proactively commit to effective stewardship activities, including engagement based on in-depth knowledge of investee companies and their business environment and consideration of their sustainability (sustainability for the medium to long term including ESG factors) consistent with the investment management strategy, exercise of voting rights and ESG investment.
- To this end, considering the large scale of the Association's investment assets widely covering the entire market, it is necessary to promote sustainable and stable growth of the entire market so as to ensure return which would be needed in the long term.
- In addition, the Association entrusts investment management institutions to make investments in equity of individual companies. The Association believes that conducting the stewardship activities through these investment management institutions is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.
- Thus, the Association formulated the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" in 2004 and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)" in 2016. The investment management institutions are expressly bound under the agreements with the Association to engage in stewardship activities in compliance with these policies.
- The Association will require investment management institutions to clearly specify how they take the issues of sustainability into consideration in their policy, consistent with the investment management strategies of the respective institutions.
- The Association will continue monitoring the stewardship activities of the investment management institutions so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts.

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

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

Reference Materials

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

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

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

- The Association grasps the status of engagements with investee companies by the investment management institutions by monitoring their effectiveness.
- The Association will continue requiring the investment management institutions to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of corporate values and sustainable growth of investee companies.
- For engagement related to the issues of sustainability, the Association will require investment management institutions to consciously conduct engagement that is consistent with the investment management strategies of the respective institutions and that serves the abovementioned purposes

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

- In order to enhance corporate value and sustainable growth of investee companies in a medium to long term, the Association has formulated the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)," which set the policy on the exercise of voting rights. Under these guidelines, the Association has the investment management institutions exercise the voting rights in relation to individual proposals.
- The Association requires the investment management institutions to disclose the results of exercise of the voting rights for each investee and proposal, and also requires institutions that do not disclose such information to explain the reasons for the non-disclosure.
- The Association will require the investment management institutions to disclose their voting rationale with respect to either a "for" or "against" vote that is considered important from the standpoint of engagement with investee companies when they disclose their voting records.
- The Association will require the investment management institutions using a proxy advisor to take into account its voting recommendation process and to disclose the name of the proxy advisor and the specific methods of using the service when they disclose their voting records.
- The Association grasps the status of exercise of voting rights by the investment management institutions by monitoring their compliance with the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" or "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)." In addition, the Association summarizes and aggregates the results of exercise of voting rights by major categories of proposals and publicizes them.

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

- The Association makes reports on its stewardship activities on annual reports on investment results (Review of Operations) and public relations magazines for the related associations. In addition, the Association also publicizes annual reports on stewardship activities which are available on its website.

The "Corporate Governance Principles of Pension Fund Association for Local Government Officials," "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equity)" and "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equity)" are also available on the website.

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

- The Association will periodically review the implementation of the principles set out in the code, and will make further efforts to ensure appropriate stewardship activities in the future.
- To this end, the Association will develop the structures and human resources for stewardship activities. The Association will also instruct its investment management institutions to develop their abilities for appropriate decision-making in relation to the stewardship activities and to make efforts and improvement for more effective stewardship activities, based on in-depth knowledge of investee companies and their business environment and consideration of sustainability consistent with the investment management strategies of the respective institutions.

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

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

2

Chronology of the Association's stewardship activity

Time		Initiatives
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.

Time		Initiatives
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 added one product to ESG fund concerning domestic equities.</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 added two products to ESG fund concerning domestic equities.</p>

Time		Initiatives
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.
	September	Started investing in ESG bonds as part of in-house investment in domestic bonds.
2020	March	<p>Revised the "Administration and Investment Policy" and the "Basic Policy" for each of the pension funds.</p> <ul style="list-style-type: none"> • Added a provision concerning the promotion of investment considering non-financial factors including ESG in addition to financial factors based on a case-by-case analysis and the implementation of necessary initiatives.
	September	Signed up to Japan's Stewardship Code (Second revised version).
	December	Newly added five products to ESG fund concerning domestic equities.

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Reporting items concerning stewardship activity in FY2020 (domestic equities)

No.	Description of report
(Stewardship activities in general)	
Q1	Attach here a digital file of (1) your statements of intent to follow Japan's Stewardship Code and policy for stewardship activity and (2) your 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 Japan's Stewardship Code with which you are not complying, (3) specify them and (4) explain the reason for non-compliance, and (5) the status of signup to Japan's Stewardship Code revised in March 2020.
Q2	Describe your organizational structures for fulfilling stewardship responsibility ((1) the collegiate body supervising stewardship activity, (2) the collegiate body relating to the exercise of voting rights, (3) the collegiate body relating to engagement, (4) the division or section dedicated to stewardship activity, (5) the division or section responsible for the exercise of voting rights, and (6) the division or section responsible for engagement). For (1), (2) and (3), describe whether your company has established these bodies or units, their compositions, chairpersons, roles, skills of members, and detailed contents of discussions held in the current fiscal year. For (4), describe whether your company has a dedicated division or section, the number of staff members and their years of experience. For (5) and (6), describe the members, the number of staff members and their years of experience. In addition, also describe (7) self-evaluation concerning your organizational structures and (8) matters for future review.
Q3	Describe specifically your policy for and process of managing conflicts of interest arising in relation to stewardship activity ((1) whether your company has stipulated policies and regulations for the management of conflicts of interest, (2) the specific situations managed as potential conflicts of interest, (3) the specific companies under management of conflicts of interest, if any, (4) organizational structures for the management of conflicts of interest, and (5) the method for managing conflicts of interest.
Q4	Submit proposals, if any, in relation to the Association's stewardship activity.
(Exercise of voting rights)	
Q5	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.
Q6	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.
Q7	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria").
Q8	Describe the following processes for exercising voting rights: (1) compliance with the Association's Guidelines for Exercising Shareholders' Voting Rights (hereinafter the "Guidelines"), and (2) exercise of voting rights suited to the circumstances of the companies (in a non-mechanical manner). In addition, also describe (3) the self-evaluation concerning your process of exercising voting rights, and (4) matters for future review in relation to the process of exercising voting rights mentioned in (1) and (2) above.
Q9	If you use a third-party proxy service, also specify (1) the name of the service provider and (2) the contents of the service. If you receive advice related to the exercise of voting rights concerning individual proposals, describe (3) whether your company verifies the content of advice and method therefor, as well as (4) issues with the proxy advisory which came to your attention when using the service.
Q10	With respect to the examination of proposed or actual exercise of voting rights, describe (1) the points of examination and (2) the organization or unit responsible for examination, as well as (3) self-evaluation concerning the proposed or actual exercise and (4) matters for future review.
Q11	With respect to the examination of account criteria, describe (1) the points of examination and (2) the organization or unit responsible for examination, as well as (3) self-evaluation concerning the account criteria and (4) matters for future review.
Q12	Provide up to three specific examples of integrated implementation of the exercise of voting rights and engagement in the current fiscal year. Include at least one case of exercise of voting rights in light of the results of engagement, and one case in which your company provided the investee company with feedback on the results of exercise of voting rights. In addition, describe the cases in which your company exercised voting rights in a way deviating from the principles set out in the Association's Guidelines based on the results of engagement, if any.
(Treatment of companies that conducted antisocial activity)	
Q13	(1) Describe specifically how you identify companies which conducted antisocial activity. (2) Also describe specifically the criteria for recognizing antisocial activity.
Q14	Describe how you deal with investee companies engaging in antisocial activity. *Enumerate all such cases. Also describe whether you engage in dialogue with an auditor of an investee company (i.e., a statutory auditor, audit committee member or director who is an audit committee member) after learning that the investee company engaged in any antisocial activity.
(Engagement)	
Q15	Describe specifically (1) your objective of and policy for engagement. In addition, describe (2) the purpose of and method for considering challenges relating to sustainability (meaning medium- to long-term sustainability including ESG elements) in dialogue. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe (3) the efforts.
Q16	With respect to engagement related to cross-shareholdings, describe (1) your basic stance (policy) for engagement relating to cross-shareholdings, (2) results of dialogue with investee companies about cross-shareholdings, (3) challenges related to dialogue on cross-shareholdings, and (4) your policy for addressing issues arising from dialogue on cross-shareholdings.
Q17	Describe in detail the process for conducting engagement with individual investee companies with respect to relevant funds ((1) a category of companies with which engagement is to be conducted and criteria for selection, (2) the method for selecting subjects to be discussed at a dialogue session, (3) the objective of the dialogue, (4) the method and responsible entity for managing progress and (5) the method for measuring effects).
Q18	If your company uses a third-party engagement service, also describe (1) the service provider's name, (2) contents of the service and (3) the reason for the use.
Q19	(1) Describe in detail the results of measurement of effect of engagement conducted by your company in the current fiscal year (describe the results of examination based on the method for measuring effects of dialogue in your engagement process). (2) Describe your self-evaluation (including challenges) concerning the engagement process in light of the results of effect measurement (from the perspective of whether the process contributes to the enhancement of corporate value of the investee company). And (3) describe matters for future improvement and review in your engagement process in light of the results of your self-evaluation (including challenges).
Q20	Describe up to five specific cases of engagement conducted by you in the current fiscal year with respect to relevant funds which, in your opinion, demonstrates the distinctive features and strengths of your engagement process, according to the items specified in the answer column. Include at least two cases relating to ESG. In the column of "Dialogue with investee companies," also describe the dialogue scenes, partners, contents, companies' responses, and your handling of the dialogue. Also describe the status of achievement of the objective of the dialogue as well as the distinctive features and strengths of your engagement structure and the process that led to the outcome. If the objective of the dialogue was not achieved, also describe your policy for future measures to be taken.
Q21	Specify the number of investee companies with which you conducted engagement in the current fiscal year and the number of major cases of dialogue. Also state your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of dialogue should not include questionnaire surveys, seminars, or large conferences).
Q22	If there is anything that is particularly noteworthy about your stewardship activity, describe it.

4 Reporting items concerning stewardship activity in FY2020
(foreign equities)

No.	Description of report
[Stewardship activities in general]	
Q1	Describe your (1) policies and organizational structures for fulfilling stewardship responsibility ((2) the collegiate body supervising stewardship activity, (3) the collegiate body relating to the exercise of voting rights, (4) the collegiate body relating to engagement, (5) the division or section dedicated to stewardship activity, (6) the division or section responsible for the exercise of voting rights, and (7) the division or section responsible for engagement). For (2), (3) and (4), describe whether your company has established these bodies or units, their compositions, chairpersons, roles, skills of members, and detailed contents of discussions held in the current fiscal year. For (5), describe whether your company has a dedicated division or section, the number of staff members and their years of experience. For (6) and (7), describe the members, the number of staff members and their years of experience. In addition, also describe (8) self-evaluation concerning your organizational structures and (9) matters for future review. *Attach a copy of your documented policy referred to in (1). Also describe whether you publicize the results of exercising the voting rights by respective investee companies and proposals.
Q2	Describe specifically your policy for and process of managing conflicts of interest arising in relation to stewardship activity ((1) whether your company has stipulated policies and regulations for the management of conflicts of interest, (2) the specific situations managed as potential conflicts of interest, (3) the specific companies under management of conflicts of interest, if any, (4) organizational structures for the management of conflicts of interest, and (5) the method for managing conflicts of interest.
Q3	If you outsource investment management, with respect to the monitoring of stewardship activities by the organization to which the investment management was outsourced, describe the (1) details of your monitoring, (2) the organization or unit responsible for monitoring and (3) matters for future review in light of the results of monitoring.
Q4	Submit proposals, if any, in relation to the Association's stewardship activity.
[Exercise of voting rights]	
Q5	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.
Q6	State your opinions concerning factors that caused changes from the same period of the previous year. 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.
Q7	Describe the specifics of the criteria for exercising voting rights related to accounts entrusted by the Association (hereinafter referred to as the "account criteria").
Q8	Describe the following processes for exercising voting rights: (1) compliance with the Association's Guidelines for Exercising Shareholders' Voting Rights (hereinafter the "Guidelines"), and (2) exercise of voting rights suited to the circumstances of the companies (in a non-mechanical manner). In addition, also describe (3) the self-evaluation concerning your process of exercising voting rights, and (4) matters for future review in relation to the process of exercising voting rights mentioned in (1) and (2) above.
Q9	If you use a third-party proxy service, also specify (1) the name of the service provider and (2) the contents of the service. If you receive advice related to the exercise of voting rights concerning individual proposals, describe (3) whether your company verifies the content of advice and method therefor, as well as (4) issues with the proxy advisory which came to your attention when using the service.
Q10	With respect to the examination of proposed or actual exercise of voting rights, describe (1) the points of examination and (2) the organization or unit responsible for examination, as well as (3) self-evaluation concerning the proposed or actual exercise and (4) matters for future review.
Q11	With respect to the examination of account criteria, describe (1) the points of examination and (2) the organization or unit responsible for examination, as well as (3) self-evaluation concerning the account criteria and (4) matters for future review.
Q12	Provide up to three specific examples of integrated implementation of the exercise of voting rights and engagement in the current fiscal year. Include at least one case of exercise of voting rights in light of the results of engagement, and one case in which your company provided the investee company with feedback on the results of exercise of voting rights. In addition, describe the cases in which your company exercised voting rights in a way deviating from the principles set out in the Association's Guidelines based on the results of engagement, if any.
Q13	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.
[Treatment of companies that conducted antisocial activity]	
Q14	(1) Describe specifically how you identify companies which conducted antisocial activity. (2) Also describe specifically the criteria for recognizing antisocial activity.
Q15	Describe how you deal with investee companies engaging in antisocial activity. *Enumerate all such cases.
[Engagement]	
Q16	Describe specifically (1) your objective of and policy for engagement. In addition, describe (2) the purpose of and method for considering challenges relating to sustainability (meaning medium- to long-term sustainability including ESG elements) in dialogue. If you are making lobbying efforts targeted at entities other than companies in line with the objective of engagement, describe (3) the efforts.
Q17	Describe in detail the process for conducting engagement with individual investee companies with respect to relevant funds ((1) a category of companies with which engagement is to be conducted and criteria for selection, (2) the method for selecting subjects to be discussed at a dialogue session, (3) the objective of the dialogue, (4) the method and responsible entity for managing progress and (5) the method for measuring effects).
Q18	If your company uses a third-party engagement service, also describe (1) the service provider's name, (2) contents of the service and (3) the reason for the use.
Q19	(1) Describe in detail the results of measurement of effect of engagement conducted by your company in the current fiscal year (describe the results of examination based on the method for measuring effects of dialogue in your engagement process). (2) Describe your self-evaluation (including challenges) concerning the engagement process in light of the results of effect measurement (from the perspective of whether the process contributes to the enhancement of corporate value of the investee company). And (3) describe matters for future improvement and review in your engagement process in light of the results of your self-evaluation (including challenges).
Q20	Describe up to five specific cases of engagement conducted by you in the current fiscal year with respect to relevant funds which, in your opinion, demonstrates the distinctive features and strengths of your engagement process, according to the items specified in the answer column. Include at least two cases relating to ESG. In the column of "Dialogue with investee companies," also describe the dialogue scenes, partners, contents, companies' responses, and your handling of the dialogue. Also describe the status of achievement of the objective of the dialogue as well as the distinctive features and strengths of your engagement structure and the process that led to the outcome. If the objective of the dialogue was not achieved, also describe your policy for future measures to be taken.
Q21	Specify the number of investee companies with which you conducted engagement in the current fiscal year and the number of major cases of dialogue. Also state your opinions concerning factors that caused changes from the same period of the previous year (the number of cases of dialogue should not include questionnaire surveys, seminars, or large conferences).
Q22	If there is anything that is particularly noteworthy about your stewardship activity, describe it.